ROLE OF NABARD IN RURAL SECTOR FINANCING SINCE 1991

ABSTRACT
THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

Doctor of Philosophy

IN

COMMERCE

By

SMITA

Under the Supervision of

PROFESSOR MOHD. ALI

DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
ALIGARH (INDIA)

2004

Abstract

ABSTRACT

Finance is an important resource and every sector of the national economy-agriculture, industry, trade, transport and various services need finance both for carrying on day-to-day activities and also for growth and progress.

Agriculture is a way of life, a tradition, which for centuries has shaped the thought, the outlook, the culture and the economic life of the people of India. It will continue to be central to all strategies for planned socio-economic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food security and to bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels.

In India, a vast majority of cultivators are small and marginal cultivators and nearly 50 per cent of the rural households are landless agricultural labourers. There are also poor artisans who are carrying on industrial activities allied to agricultural operations carpentry, black smithy, pottery, etc.

Rural credit has been the history of the movement of rural society from non-institutional to institutional framework. This involved a shift in the sources and purposes of credit from traditional moneylenders to modern banks and from unproductive to productive purposes. It is the lack of proper resources with the rural people which compelled them to borrow money for the fulfillment of their daily, occasional and seasonal needs, thus falling a pray in the hands of various lending systems of the landlords, money lenders, shopkeepers and the traders. Rural credit has its roots in the exploitative rural set-up having feudal base and cannot be viewed in isolation.

Rural credit system is mainly agriculture oriented. The agriculture system is mainly being financed directly or indirectly by the government institutions, cooperative banks and private financing agencies.

NABARD, which was set up in July 1982 and took the agricultural credit functions of RBI on the one hand and the refinance functions of ARDC on the other is basically an apex Bank for the agriculture and rural development financing. Though the National Bank has been playing a vital role in rural sector financing since its inception, yet, there are many more things to be taken up by the NABARD. In this connection the purposed study deals with "The Role of NABARD in Rural Sector Financing Since 1991".

The study is divided into five chapters. Chapter I gives a brief introduction of rural economy and the establishment of NABARD. This chapter sets out the objectives, hypothesis, research methodology and

limitations of the study. Along with this literature review of various eminent scholars has also been discussed related to the research work.

Chapter II deals with the evolution of rural financing. In this chapter it has been explained that in Vedas and manusmrities period money lending and allied activities assumed considerable importance. The bankers in the smriti period performed most of these functions which the modern time banks perform such as accepting of deposits, granting loans to kings in the grave crisis, acting as a banker and treasurer to the state and issuing and managing the currency of the country". Similarly, during the Ramayana and Mahabharata era banking had become full-fledged business activity. During Buddhist period shahukars were acting as the banker. In Muslim period this fairly received a great set back because Muslim rulers believed taking of byaz as a great sin. With the arrival of East India Company Indian Banking system had another setback. Also the Industrial Revolution did not let people remain dependent on "Shahukars" as they started getting employment in factories. Money-lenders, landlords, traders and Commission agents all used objectionable practices in their financial dealing with their clients in rural areas. Cooperatives and Commercial Banks too have their weakness. The increased network of rural branch offices of these two banks could not reach the interior rural areas and hence RRBs were established with the features of both cooperatives and commercial banks. Hence it is said to be the hybrid of cooperative and commercial banks in rural sector of our economy. The Central Bank, Reserve Bank of India functioning in the sphere of rural credit could not manage all the functions properly and hence Agricultural Finance Corporation (AFC) and Agricultural Rural Development Corporation (ARDC) was established as the helping hand of RBI. With the widening role of bank credit from agricultural development to rural development a more broad based organization at the apex level to give support and guidance to credit institutions in the formulation and implementation of rural development programme was needed and this thinking led to the establishment of NABARD. Further this chapter deals with the functions and objectives of NABARD its nexus with other banks.

The Chapter III deals with the role of NABARD in financing farm and non-farm sector. Farm sector includes both agriculture and allied activities. Agriculture includes the whole process of cultivation of land. It is the largest sector of the economic activity and has a crucial role to play in the country's economic development by providing food and raw materials, employment to a very large proportion of population, capital for its own development and surpluses for national economy. Agricultural sector contributes the largest share to the national income of India. On the

other hand, allied activities solve the problem of disguised employment in rural area by relieving a large size of population from land, which creates unnecessary pressure on land. It provides whole time employment as in the off-season the farmers and landless labourers can take up allied activities as supplementary source of their income. Non-farm sector besides marketing of agricultural produce and non-agricultural goods, deal with major groupings of economic activities, i.e., artisans and rural industry. Rural artisans are found in traditional activities and encouragement of this class of producers results in important benefits to the economy in the form of additional output and employment. Rural industries embrace all industries, which are run by rural people in or near their homes as a spare time or whole time occupation. It can be broadly classified into 3 groups, viz., (a) cottage industries; (b) agro-based industries, and (c) small industries.

The potential for employment generation of the non-farm vis-à-vis the farm sector ultimately depends upon the nature of the specific activities that are undertaken in the respective sectors. For instance, raising of field crops under irrigated conditions may generate more employment opportunities in irrigation then that in the handloom industry. This makes it necessary to finance both the sectors keeping in mind the income earning and employment generating potential of the specific activities.

The Chapter IV discusses the rural financing done by NABARD after liberalization. In this chapter the launching of programes and policies like Service Area Monitoring and Information System (SAMIS), Cooperative Development Fund (CDF), Micro Finance Innovations, financing to SHGs by NABARD, Sanctioning of Rural Promotion Corpus fund (RPCF) for District Rural Industries Project (DRIP), Trainers' Training Programme on GOPP, Development of Rural Clusters, Training-cum production Centres, Common Service Centres, Rural Entrepreneurship Development Programme and Skill Upgradation of Handloom Weavers has been discussed. Initiating of Organization development Intervention (ODI), implementation of Development Action Plan (DAP) have also been mentioned in this chapter. Launching Rural Infrastructure Development Fund (RIDF) and formulation of Kissan Credit Card Scheme, with Potential Linked Credit Plans (PLPs) Watershed Development Fund (WDF) and Swarnjayanti Gram Swarozgar Yojna (SGSY) are also major milestones of NABARD. Setting up of Agriclinic, Agri-business Centres of Agri-Export Refinancing for Rural Housing, Rural Women programme like ARWIND, MAHIMA and DEWTA etc. have also been discussed in detail in this chapter.

Lastly, Chapter V discusses the Problems, Suggestions and Conclusion.

Almost 72 per cent population residing in rural areas and providing employment to 64% of labour force agriculture contributes a substaitial share in GDP. It was 55.$% in 1950-51, 52% is 1960-61 and presently is reduced to nearly 25% only.

The thrust of rural sector during the Tenth Five Year Plan (2002-07) is on agricultural production by bringing about improvements in productivity, value addition and exports. There is also a growing realization that the goals for the agriculture sector under the Tenth Five Year Plan may be difficult to attain unless major reform initiatives are carried out in this sector.

First generation reforms, which were introduced in 1991 to stabilize and later to bring structural adjustments in the economy, have now entered into the second generation reform in which for more far reaching results sectoral development is needed. For agriculture sector following issues like reduction of regional and sectoral imbalances, development of small/medium farmers and SC/ST women, system improvement in credit institutions, coordination in multi-institutional controls for strengthening planning, policies etc., strengthening resource base of NABARD and restrictive provisions of NABARD Act relating to resource mobilization and business operation, disaster management particularly in respect of crop insurance and other crisis, promotion of alternative credit delivery systems (NGOs/SHGs) and development of innovative credit packages etc are needed.

The Bank has now run through a span of almost two decades (1982-2003) during which it has made significant progress in giving refinance for the development of rural sector. No doubt, the volume of refinance has been increasing substantially year after year. But then also NABARD has not been able to fully live up to the expectations. NABARD has taken a fresh initiative in certain areas to emerge as a strong development Bank for rural development and more improvement up to the mark can be done through following suggestions-by monitoring the use of funds on a continuous basis and can be easily performed by NABARD's regional offices, to shape it into an effective instrument for the welfare of poorer sections the real success of NABARD can be through proper coordination between the various poverty alleviation programme, NABARD should have its own restructuring for streamlining its operations with the government and financial institutions in the matter of taking up of their problems, the NABARD should improve its functional capabilities in project identification, preparation, appraisal and monitoring and ensure that its client banks are equipped to perform these functions more effectively, it should pay greater attention to extending refinance and developing the non-farm sector areas, the progress in the matter of development of agro-processing and food processing industries has been very limited and slow and a lot of ground remains to be covered. NABARD should make special efforts to expedite the implementation of programmes. NABARD in the matter of crisis management and disaster management should take up serious implementation of various recommendations of Khusro Committee in the matter of comprehensive crop insurance and other measures, which would help in disaster management. It should try to impose upon itself certain disciplines like the time taken to dispose off schemes and proposals, which are presented to them for consideration, presentation of the proposals and sanction to exceed to two weeks.

To conclude, NABARD has acted as an apex refinance institution as well as development institution in the field of agriculture and rural development in true sense. In all fairness, it can be said that overall NABARD's performance is satisfactory and can be made more functional if some improvements are brought about as suggested above. If the schemes of the NABARD are made more practical and accessible to the rural masses this could make the chances of entire rural economy more glaring. What is needed is making available more resources at the disposal of NABARD and active cooperation of various state Governments and agencies for disbursing credit to the farmers living in rural areas.

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Declaration

I, **Smita** solemnly declare that the contents of the present thesis entitled **"The Role of NABARD in Rural Sector Financing Since 1991"**, are original and the outcome of my independent research and no one has so far been awarded the degree of Ph.D or any other research degree on the same topic.

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CERTIFICATE

I hereby certify that the thesis entitled ***"THE ROLE OF NABARD IN RURAL SECTOR FINANCING SINCE 1991"***, submitted by ***Miss. Smita*** is an original contribution to the existing knowledge on the subject matter. It conforms to the requirements for the award of Ph.D. degree in this University.

(Professor Mohd. Ali)
Supervisor

Contents

Preface

Rural financing is one of the most crucial inputs for the rural development. For a long time, the major source of this credit was in the hands of private moneylenders. This source of credit was inadequate and highly expensive and exploitative. After independence a multi-agency approach consisting of the cooperatives, the commercial banks, the regional rural banks and the other agencies known for institutional credit, has been adopted to provide cheaper, adequate and timely credit to the farmers.

NABARD, established in the year 1982, is also one of them. It was established for transforming the socio-economic structure of rural India. The main objective of setting up of NABARD was to refinance and provide other facilities especially to the eligible institutions for the development of rural sector.

Though the National Bank has been playing a vital role in refinancing since its inception, yet, there are many more things to be taken over by the institution. In this connection the proposed study deals with, "The Role of NABARD in Rural Sector Financing Since 1991".

It deals with the launching and financing of programmes undertaken by NABARD after liberalization and its impact on the rural economy. The study will discuss the basic realities and make an attempt to find out whether the Bank is still out of political net and capable of discha ging its functions effectively in the competitive market.

The present study is divided into 5 chapters. Chapter 1st is devoted to the identification of the problem, objectives and hypothesis along with the study of literature of eminent scholars. Chapter 2nd deals with the historical background of rural financing and policy framework of NABARD relating to objectives and its functions. The 3rd chapter evaluates the rural financing in farm and non-farm sector of India and the role of NABARD in this matter. Chapter 4th gives the establishments and progress of programme and policies by NABARD after liberalization and its affect on the rural sector. Finally chapter 5th deals with the problems faced by NABARD in its day-to-day working. In the last suggestions are given to overcome the problems.

Acknowledgment

I express my deep sense of gratitude to my research supervisor learned Professor Mohd. Ali, Department of Commerce, A.M.U., Aligarh whose skillful guidance, honest supervision and constant encouragement at all stages has been instrumental in the completion of this work.

I am also grateful to Professor Qamaruddin Khan, Dean, Faculty of Commerce, and Professor M. Mushtaque Ahmad, Chairman, Department of Commerce, Aligarh Muslim University, Aligarh for their help and blessings.

I am deeply indebted to Professor Samiuddin, Ex-Dean and Chairman, Faculty and Department of Commerce and a known specialist of cooperatives in the world. His continuous help inspite of his busy schedule helped me to complete this thesis in its present form.

My sincere thanks are also for Professor Mahfoozur Rahman Ex-Dean and Chairman, Faculty and Department of Commerce A.M.U., Aligarh, whose suggestions and encouragement at different stages of my study were of great importance.

My thanks are also due to Mr. R.A. Misra, Assistant General Manager of NABARD, Aligarh Branch, Aligarh for helping me whenever I approached his office for research work. I would also not forget the help provided by NABARD. Regional Office of Delhi and Lucknow for providing the required data and literature for my work.

I am also thankful to Mr. Mazhar Hussain, Lecturer in English for going through this work.

Thanks are also due to my parents (Mr. N.D. Prasad, Mrs. Madhilika Prasad) who have inspired me for this work. I would also like to thank my brother, sister in-law, sisters and my most loving niece for their consistent support, inspiration and encouragement, which helped me to complete my thesis.

I am grateful to Mr. Ali Hasan Khan of Seminar Library, Department of Commerce, A. M. U, Aligarh and Mr. Akram Ali, Mr Khawaja Pervez, Mr. Anees Ahmed for their help and encouragement. I would also like to thank Mr. Mohd. Razi who has typed this work very carefully.

I am thankful to my friends particular Mr. and Mrs. Aditi Dixit, Ms. Shabana Qamar, Ms. Reshu Agrawal, Ms. Nuzhat Jabeen Ms. Monika Agrawal and Ms. Pooja Nigam for their good wishes.

Smita

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ABBREVIATIONS

ADFCs	Agricultural Development Finance Companies.
AFC	Agricultural Finance Corporation
APEDA	Agricultural Food Products Export Development Authority
APRI	Area Plan for Rural Industrialisation
ARDB	Agricultural Rural Development Bank
ARF	Automatic Refinance Facility
ARF	Automatic Refinance Facility
ARWIND	Assistance to Rural Women In Non-farm Development
BIRD	Bankers Institute of Rural Development
CEC	Commission on European Community
CLS	Composite Loan Scheme
DCCBs	District Central Co-operative Banks
DDM/s	District Development Manager/s
DRDA	District Rural Development Agency
DRIP	District Rural Industries Project
DWCRA	Development of Women and Children in Rural Areas
FIP	Full Implementation Phase
FSS	Farmer's Service Society
GDP	Gross Domestic Product
GLC	General Line of Credit/Ground Level Credit
GOI	Government of India
HID	Human and Institutional Development
HYV	High Yield Variety
IFAD	International Fund for Agriculture Development
IGWDP	Indo-German Watershed Development
ILS	Integrated Loan Scheme
IRDP	Integrated Rural Development Programme

KFW	Kreditanstalt fur Wiederaufbau
KVIB	Khadi & Village Industries Board
KVIC	Khadi & Village Industries Commission
LAMPS	Large-sized Adivasi Multi-purpose Societies
LDBs	Land Development Banks
MF	Micro Finance
NER	North-Eastern Region
NFS	Non-Farm Sector
NGO	Non Governmental Organisation
NS	Non-Schematic
OPP	Oilseeds Production Programme
PACs	Primary Agricultural Credit Society/ies
PCARDBs	Primary Cooperative Agriculture & Rural Development Banks
PCB	Primary (urban) Cooperative Bank
PLB	Potential Linked Plan
PNB	Punjab National Bank
PRI	Panchayati Raj Institution
PWCs	Primary Weaver's Cooperative Societies
RBI	Reserve Bank of India
RFIs	Rural Financial Institution
RIDF	Rural Infrastructure Development Fund
RNFS	Rural Non-Farm Sector
ROs	Regional Offices
RRBs	Regional Rural Banks
SAO	Seasonal Agriculture Operations
SBI	State Bank of India
SC/ST	Schedule Caste/Schedule Tribe
SCARDBs	State Cooperative Agriculture & Rural Development Banks

SCB	State Cooperative Bank
SGSY	Swarnjayanti Gram Swarozgar Yojana
SHDCs	State Handloom Development Corporations
SHGs	Self-Help Groups
SLDBs	State Land Development Banks
SSI	Small Scale Industry
WCS	Weavers Cooperative Societies
WDF	Watershed Development Fund

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Chapter I

Introduction

Chapter 1

Introduction

"Rural India is the real India, rural development is the real development of India" was the message of the father of the nation that was handed down to the country in general and the political leaders as well as economic policy formulators in particular. Major portion of country's population resides in rural areas. Agriculture and allied activities provide employment and sustenance to 64% of the country's total population. Rural economy forms the real foundation of India's economy and its economic development depends on the development of rural sector. For rural development it is essential to look into the requirements of agricultural development & sort out problems relating to agricultural credit, marketing, processing, storage, husbandry, fisheries, forestry, village and cottage industries & many other activities having direct or indirect bearing upon agricultural activities of rural people. Despite the huge industrialization that has taken place in the economy since 1951, agriculture continues to enjoy a position of prominence.

India is predominantly an agricultural country where most of the people depend upon agriculture, and among cultivators, small and marginal farmers are in numerical majority. These cultivators need credit from time to time for needs related to agriculture or small activities hence rural credit has a special meaning & significance in India. Being an agricultural country, tilling as an enterprise is a vocation for subsistence of millions of people. Capital, of course, has a significant impact on production, but capital formation is pathetically poor in our countryside. Thus, insufficient supply of finance is a hurdle in the agricultural development. Though credit is an established source of capital for an enterprise, our village economy is still conspicuous by the cheap and convenient borrowing.

The question of agricultural finance is related to the question of improvement of agriculture. The farmer must be made credit worthy before credit becomes freely available to him. This consideration stresses that the credit agency to be suggested for the purpose, must have an educative as well as purely business side, whether the farmer employs the money really for improving production and making the agricultural business more profitable or not. The unique nature of agricultural enterprise calls for a special treatment of the problem. The financing institutions are impersonal and they are solely concerned with the profitable investment of their funds. Nabard is not an exception. The credit extended by trade-men is even more heedless of the benefit to the cultivator. Though the money-lenders have a close touch with the farmers they are primarily concerned with their own profit. When Government finances the agriculture it may be expected to see that what it lends is profitably utilised, but is inherently not qualified to act as a general financing agency.

There are different types of credit. Credit according to time, includes short-term, medium-term and long-term, corresponding to the respective classification of capital. Short-term loans are for variable items of capital, such as raw materials for industry or seasonal inputs in agriculture, i.e., seed, fuel, fertilizers, insecticides and pesticides, casual labour, etc. These loans are for a period ranging from 6 months to one year or at the most for 18 months. These loans are also known as seasonal loans, crop-loans and the banks call these as production loans. These loans are generally recovered in one installment after the produce is marketed. The medium-term loans are for such working capital assets as machinery, diesel engine, wells, irrigation structures, threshers, crushers, bullocks, dairy animals, dairy sheds, etc. Thus, these loans are for real estate with a short repayment period of a maximum up to 5 years. A tractor loan is also called a medium-loan or investment loan. The third category corresponding to long-term capital is for real estate with long repayment period usually for 5 to 10 years and in a few cases extending even up to 20 years. These long-term loans are for establishment of orchards with long gestation period, permanent land improvement like reclamation and soil conservation including buying of land, etc. Usually, the arrangements for financing long-term needs are separate. Commercial banks usually do not venture into these, except in few cases of orchard establishment with shorter gestation periods and correspondingly a recovery period of 7 years only.

For India, agriculture and rural development are a sine quo-non.[1] Agriculture plays an important role in the rural development. Though the share of agriculture in national income has come down but still it has substantial share in GDP. It was 55.4% in 1950-51, 52% in 1960-61 and at present is nearly 25% only. It provides livelihood to about 64% of the labour force. Various important industries in India get their raw material from agriculture sector.

[1] Dr. A.R. Patel, Kurukshetra, "Rural Credit" vol. 48, No. 12 Sept. 2000

Cotton, jute and textile industries etc. are directly dependent on agriculture. Handloom, spinning, oil milling, rice thrashing etc. are various small scale and cottage industries which are dependent on agriculture sector for their raw material.

The Foreign trade is also deeply associated with agriculture sector. Value of agriculture exports to total exports of the country has been ranging between 15 to 20%. Besides goods made with raw material, agriculture sector also contribute about 20% in Indian exports. In other words, agriculture and its related goods contribute about 38% in total exports of the country.

Since its inception," RBI has shown keen interest in agricultural credit and maintained a separate department for this purpose. It extended short-term seasonal credit as well as medium-term and long-term credit to agriculture through state level cooperative banks and land development banks. At the same time, it has also set up the Agricultural Refinance Development Corporation (ARDC) to provide refinance support to the banks to promote programmes of agricultural development, particularly those requiring term credit. A National Bank for Agriculture and Rural Development (NABARD) was set up to take over the agricultural credit functions of R.B.I. on the one hand and the refinance functions of ARDC on the other. This bank was set up in July 1982. Though the National Bank has been playing a vital role in rural sector financing since its inception, yet, there are many more things to be taken over by the institution. In this connection the proposed study deals with "The Role of NABARD in Rural Sector Financing since 1991".

OBJECTIVES OF THE STUDY

NABARD has now completed 22 years of its operations and has shown mixed results. This calls for a close evaluation of the functioning of the NABARD to assess its role and objectives for which it was established and to find out the causes of ineffectiveness if any, and to suggest measures, which may be conducive to its performance.

The following are the main objectives of the study: -

* To evaluate rural financing with historical background, policy framework and discuss issues relating to functions and objectives of NABARD.
* To evaluate the rural financing in Indian farm and non-farm sector and the role of NABARD in it.
* To analyse the achievements and developments which took place after liberalisation and its impact on NABARD's functioning for the development of rural financing.
* To evaluate the hindrances, problems, impediments, in the process of rural sector financing and steps taken by NABARD to overcome them.

RESEARCH METHODOLOGY

There is no alternative to truth and therefore to research. Research means to get nearer to the truth, to understand the reality. Research has been passion of mankind at all times.

Research methodology is a specification of methods and procedure for acquiring the information needed. Research methodology contributes the blueprint for the collection, measurement and analysis of data.

Research methodology is a way to systematically solve the research problem. It is the sum total of the steps adopted for doing the research work along with the logic behind them.

Since a researcher has to work in a practical situation, one is required to set oneself to the task of translating the idealized design into a realistic working procedure that is the practical research design. The practical research design results from adaptation of the scheme of optimal requirement of research to the practical requirements of a study in such a manner that compromises between the ideal and practical aspect and not accomplished at the cost of scientific virtue.

The study is based on the secondary sources of information such as RBI reports, Annual Credit Plans, and Report of Government of India, daily newspapers like Economic Times and Financial Express, Business Line, etc. have also been used to collect secondary data. The annual reports of NABARD for various years have been consulted. At the best only authentic reforms are quoted.

Annual Reports of the NABARD and its statistical tables are the main source of information and extensively used for evaluation and highlighting the functions, objectives, working and present position of developmental phases of various rural financing schemes and programmes.

The study will analyse the achievements and developments which took place after liberalisation and its impact on NABARD's functioning. Nevertheless NABARD is working to achieve its objectives. But where the future lies is to be investigated.

Data Collection:

The data has been collected mainly from secondary sources namely: -

1. Publications of NABARD
2. Publications including annual reports of the Reserve Bank of India (RBI)
3. Journals of Cooperation
4. Annual Reports of NABARD
5. Web site of NABARD
6. National Bank News Review
7. Newspapers

Also I have visited libraries of NABARD and interacted with, the concerned officials of various offices of NABARD. Wherever possible their views have been incorporated.

HYPOTHESIS OF THE STUDY

After nationalization of banks much has been done in the field of rural financing. The establishment of NABARD is the most important step in the rural sector financing and refinancing operations. For streamlining the rural credit and credit to small farmers, artisans and small entrepreneurs in the rural and semi-urban areas much was to be done and NABARD started streamlining and coordinating the lending operations in rural areas. It has done a lot in improving the operations of the RRBs and Cooperative Credit Agencies in the rural areas; still the functioning of NABARD has been in the grip of criticism.

So far to tackle the problem of recovery of loans of the lending agencies, nothing concrete has been done. Even NABARD could not do any thing in an effective manner. Hence, recovery of loan could never be made above 80 per cent level. Although the establishment of NABARD has been a pioneering and effective measure for making the rural sector financing more practical and realistic with a long-term strategy, it may be said that it has to graduate itself to face the new socio-economic environment that has entirely changed after 1991.

The study will discuss the basic realities and make an attempt to find out whether the Bank is still out of political net & capable of discharging its functions effectively in a competitive market to achieve its objectives.

LIMITATIONS

The study will be based on published reports, books, and proceedings of standard seminars, conferences and congresses. The Annual Reports of the committees appointed to evaluate the working of NABARD will be the major source of information. All these will be interpreted and discussed with the various officers before arriving at any conclusion.

LITERATURE REVIEW

Literature on Nabard is available in the Head Office & Regional Offices libraries of the Bank. Moreover several researchers & writers have written books, articles covering various aspects of rural economy & agricultural economy of India. I am very much benefited by it.

Dr. S. K. Saxena has dealt with a number of problems of NABARD. He has argued that NABARD has not provided resources to LDBs for all purposes He has supported the establishment of National Cooperative Bank (NCB) and remarked that the short & long credit wings of the Cooperative movement should take initiative for a national bank jointly. At present the establishment of NCB is under active consideration.[2]

K.K. Taimni has been very critical for the functioning of NABARD. He has remarked that the NABARD, confronted with the choking of flow of credit through cooperative channels into rural areas, suffered from no visible qualms, when it decided to switch over to the alternative channel provided by the Commercial Banks/Regional Rural Banks. It certainly did not try to develop cooperatives. The utility of the cooperatives was seen as a mere instrument for the delivery of agricultural credit.[3]

Dr. R. Ahmed has discussed RRBs in detail. He has pointed out that after the establishment of NABARD, in 1982 the RBI's function of providing assistance to RRBs was transferred to NABARD. Now NABARD not only grants loans and advances, but

[2] S.K. Saxena, Cooperatives in India and Pakistan, "Long-Term cooperative credit in India" ICA Domas Trust, New Delhi, 1992, Page 70.

[3] K.K. Taimni, Cooperative Development: The Next Phase, "Cooperative Development agencies: A Role Review" ICA Domas Trust, New Delhi, 1993, page 84.

also supervises the working of RRBs and segments of Cooperatives which is exhaustive and informative while dealing with cooperative financing he has discussed the agricultural financing specially through RRBs. During his discussions on short and long-term loan to agriculturists he has touched upon the role of NABARD in agricultural development programme.[4]

In his article Dr. Sanjeev Chopra, has remarked the objective of the PACS that they were primarily set up for mobilising of local resource and disbursement of credit. Most of the primary societies in the country, with the exception of Kerala, have failed miserably in these tasks. In fact, if refinance from higher structure were not available, these cooperative societies would soon have to close shop. The availability of easy finance from NABARD is therefore, preventing growth & development potential of the PACS. Likewise in the case of DCCBs it has been seen that the borrowings from SCB/NABARD amounted for 88.7% of the total borrowings. Similarly, the SCBs borrowings from NABARD are to the extent of 78.8%. The message is quite clear that without the support of NABARD, the entire structure would become unviable. [5]

Samiuddin in his work has discussed in detail the development of cooperative sector through various stages. His work on various segments of cooperatives is exhaustive & informative. While dealing with cooperative financing he has stressed upon the agricultural financing specially through RRBs. During his

[4] Rais Ahmad, Rural Banking and Economic Development; "Regional Rural Banks and its Management" Mittal Publications, New Delhi, 1998, Page. 19.

[5] Sanjeev Chopra, The structure of Organization of Agricultural Credit in India, Relationship between Primary Societies, Apex bodies and CDFAS Paper presented at the Inter-Regional workshop on "The role of cooperative Apex organizations is a competitive Environment as Johannesburg, south Africa", Centre for Cooperatives an rural Development LBs National Academy of Administration, Mussoori , 13-17 July, 1998, Page 16

discussion on short & long term loan to agriculturists he has touched upon the role of NABARD in agricultural development programme.[6]

Imran Siddiqui has mentioned in his work that NABARD provides medium & long-term credit primarily by way of refinancing those major development projects, which cannot be financed by other credit agencies. He opines that the availability of finance from the NABARD provided an opportunity to the Uttar Pradesh Land Development Bank to play its significant role in increasing agricultural production. Very honestly he opines that cooperatives are government agencies and cooperatives at present are not real cooperatives, they are shops of bureaucrats and politicians who have joined hand to exploit cooperatives.[7]

K.K. Taimni in his work cooperatives in Asia has remarked that the role and set-up of organisations like the National cooperative Development Corporation (NCDC), the National Dairy Development Board (NDDB) and the National Bank for Agriculture & Rural Development (NABARD) in India need to be critically studied and wherever necessary redefined, so that such cooperative development and financing institutions can, in conjunction with cooperative savings credit & banking, insurance structures, meet the capital needs of cooperative. These state owned cooperative development and financing agencies may raise capital from the

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[6] Samiuddin, Mahfoozur Rahman, Cooperative Sector in India, "Agricultural Refinance Corporation," S. Chand & Company Ltd. New Delhi, 1983, Page 174

[7] Dr. M. Imran Siddiqui, Land Development Banking, "Financial Resources of Uttar Pradesh State Cooperative Land Development Bank", Khama Publishers, New Delhi, 1990 Page 103.

open market, international agencies or any other source; but must lend directly to cooperatives without any government guarantee.[8]

Suresh & Joseph, in his work on cooperatives and Rural Development in India has critically pointed out that there is one NABARD for the whole of agricultural and ruralties. Though Government is ready to import rural based products like oil seeds, agricultural products etc. at higher cost without giving the same as subsidy. Industries are protected under the infant industry argument from the time of inception onwards. Indian villages are turned to be the dustbin of urban elites. In this connection it is remarked "India's village communities that suffered from centuries of neglect and technological underdevelopment, create a special category by them for comprehensive understanding of the overall situation."[9]

Sharma in his article has discussed the role of NABARD and he pointed that it provides refinance support to the cooperative agricultural financing institutions on the government guarantee. Besides this, the Bank also implements a number of schemes for institution strengthening in the sphere of agriculture financing. The Bank also acts as regulatory arm of Reserve Bank of India to control and regulate the operations of the cooperative banks as stipulated in the Banking Regulation Act. He also mentioned the

[8] Krishan K. Taimni, Cooperative in Asia, "Positioning cooperatives in the New Millennium," International Labour Office, Geneva, 2001, page 25.
[9] K.A. Suresh & Molly Joseph, Cooperatives and Rural Development in India, "Rural Development-concepts & experiments," Ashish Publish House, New Delhi, 1990, page 9.

strengthening programme, important schemes implemented by the Bank in the field of agricultural finance.[10]

Sridhar in his article structural adjustment and cooperatives has critically viewed that DCBs have to face multiple challenges. One of them is the MoU signed with NABARD to implement DAPs, which has stringent provisions, but no financial assistance is forthcoming from any agency.[11]

A Study under ARDC (NABARD) lending in Tamil Nadu carried out in Madurai District revealed that a major share of the total loans provided to the small farmers went to the target groups. As a result of this, the gross income of small farmers increased from Rs. 7800 to Rs. 10,100 and thus the scheme had definite impact on the small farmers. The scheme covered only 10 per cent of the weaker sections. Their very weak asset base and insistence on security denied them the benefits of institutional finance. However, there was no wilful defaulter. Milch animals and sheep rearing programmes registered good repayment due to tie-up arrangement for marketing. [12]

Singh and Singh in their article highlighted the allocation of institutional credit in relation to farm assets, farm cash expenses and use of fertilizers among different farm-size groups in Punjab.

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[10] "Restructuring of Cooperative Supp rt Services in Asia-Pacific, Restructuring of other cooperative support services", NCUI in collaboration with co-opnet/coop-reform Programmes, , New Delhi, April, 1998, page 65

[11] Ed. Sanjeev Chopra, "Cooperatives: Policy Issues for the SAARC Region", Centre for Cooperative & rural Development Lal Bahadur Shastri National Academy of Administration, in association with ILO Co-opnet/Coop reform Programme, NCUI & SAARC Division, Ministry of External Affairs, Government of India, New Delhi: 1998, page 191

[12] "Notes for Discussion for Scientific Workers' Conference, 1985" (Coimbatore: Tamil Nadu Agricultural University, 11th April 1985) pp. 101-102

The study highlights that the institutional credits in terms of its allocation was found concentrated in favour of big farmers. [13]

G.A. Naryana in his work "Problems of Agricultural Loans" has discussed that farmers are not getting bank loans properly and he has also given suggestions to solve this problem. He holds that farmers do not go to bank because of non-cooperative attitude of the bank employees, complicated and dilatory procedure and their dependence on the Sarpanch and other functionaries for getting loans.[14]

G.L. Narayanappa has observed various problems and gave suggestions for their solution. He found that the rural artisans in our country have been suffering from certain socio-economic problems like lack of adequate and timely credit, lack of marketing facilities at the local level, poor infrastructure, unwillingness of rural artisans to adopt new technology, and non-availability of qualitative raw material, etc.[15]

An article entitled "Rural Banking for the Rural Poor", by M.N. Mishra holds the view that the Regional Rural Banks were established with a view to provide financial help to the rural poor. But most of the benefits are availed by the rich farmers and not the small and marginal ones. According to the author, these problems

[13] Prabhjit Singh and Gurbachan Singh, Financing Agriculture, "A study into the pattern of distribution of Institutional credit among different categories of Farmers", Vol. IX No. 3, October-December, 1987, pp. 8-11

[14] G.L. Naryana, Kurukshetra, "Problems of Agricultural Loans", Publication Division, Government of India Vol. 34, No. 4, New Delhi , April 1987

[15] G.L. Naryanappa, Agricultural Banker, "Maldies of Rural Artisions: A Case study," New Delhi, Vol. 10 No. 4 Oct.-December, 1987

are mainly due to the connivance and corrupt practices of the bank officials and local leaders.[16]

In an article entitled "Financing and Rural Artisans by Commercial Banks: Some Problems and suggestions" B. Nagaraja observes that rural artisans have been an integral and continuing element in India's economic and cultural set-up. This sector is indeed important from the viewpoint of employment generation, contribution to the national income and foreign exchange earnings. The author strongly feels that unfortunately this sector has completely been ignored by the commercial banks and they mainly prefer to finance agriculture that is not the only way of bringing about rural development in the country. He has pointed out remarkable certain difficulties faced by commercial banks in financing rural artisans and has suggested ways for their removal.[17]

The National Bank for Agriculture and Rural Development (NABARD) undertook a survey with the sample of 1948 beneficiaries of the Integrated Rural Development Programme (IRDP), covering 122 branches of the financing banks spread over 60 blocks in 30 districts of 15 states. The survey revealed the defects in implementation of IRDP like (i) the provision of credit for a single activity; (ii) financing of defective and substandard assets; (iii) undue stress on financing animal husbandry programme; and (iv) lack of supervision on the end use of credit. The survey suggested that targets of diversified investment activities for a block should be fixed keeping in mind resource potential, availability of

[16] M.N. Mishra, Yojana, "Rural Banking for Rural Poor", Publication Division, Government of India, Vol. 29, No. 24, New Delhi, January, 1986

[17] B.Nagaraja, Agricultural Banker, "Financing of Rural Artisans by Commercial Bank some problems and suggestions", Vol. 3 No. 2, New Delhi, April-June, 1986

infrastructural facility, and agro-climatic conditions of the area concerned. The programme could be made effective if family would be treated as the basic unit in the identification of beneficiaries and a package of activities would be financed rather than confining to a single activity.[18]

A.B. Noor .and Naryana Rao in their article entitled "Agricultural Development Policies; Need for a Fresh Look" highlight the problems faced by the farmers with regard to their credit needs. The study holds that the credit facilities or incentives are always availed by rich and affluent farmers. Small and marginal farmers for getting financing facilities for subsidies and cash incentives cannot avail it through feudal landlords or by Government officials. Keeping in view the problems particularly of small and marginal farmers, the author strongly suggests for a fresh look at the agricultural development policies and has also given some meaningful suggestions to remove the hurdles. [19]

B.K. Pal and K.L. Mukhopadhay in their work "Agricultural Finance in West Bengal" have made a joint effort to assess the credit requirements of the farmers of West Bengal. They hold that inspite of the cooperative banks and Government sponsored institutions, meeting the credit needs of the farmers, the agriculturists are suffering for want of funds. The authors recommend suitable institutional changes to bridge the credit gap, which is likely to widen in future. Finally, they opine that the Reserve Bank of India and other financial institutions should amend their working procedures to enable the common

[18] "NABARD finds flaws in IRDP Implementation", The Hindu, Coimbatore, January 26, 1986, p. 13
[19] A.B. Noor and Naryana Rao, Kurukshetra, "Agricultural Development Policies: Need for a Fresh Look", Publication Division, Government of India, Vol. 10 No. 7, New Delhi, April, 1987

agriculturists to get the benefits of agricultural credit in an easy manner. [20]

An article by B.K. Ghosh "Some Reflections on Rural Banking and Agricultural Financing by Commercial Banks" gives relevant information about rural banking and agriculture financing by commercial banks after nationalisation. The author has tried to see how much credit the banks make available to agricultural sector during 1969 to 1985. [21]

An article by L. Naidu and B. Nagraja, "Financing of Small Scale Industries by Commercial Banks: Some Problems and Suggestions", reveals that in an agricultural country like India, where unemployment and underemployment are acute, small scale industrial sector has to play a prominent role. According to the authors, a significant feature of small-scale sector is that it helps in diffusing economic power and ensures equal disbursement of wealth, which is essential to achieve the equalitarian objective of a socialistic society. The small-scale industries should not only provide employment opportunities but also make great contribution to the rapid decentralized growth of our economy. Therefore, realizing the potential of small-scale industries, institutional credit should be made available to them by the financial institutions like commercial banks. The authors have highlighted the problems faced by the commercial banks and their solution has also been given. [22]

[20] B.K. Pal and K.L. Mukhopadhay, "Agricultural Finance in West Bengal", Calcutta University Press, Calcutta, 1973

[21] B.K. Ghosh, Agricultural Banker, "Some Reflection on Rural Banking and Agricultural Financing by Commercial Banks", Vol. 4 No. 1, New Delhi, April-June, 1986

[22] L.Naidu and B. Nagraja, Agricultural Banker, "Financing of Small Scale Industries by Commercial Banks: Some Problems and suggestions", Vol. 10 No. 1, New Delhi, January-March, 1987

Pandey in his article concluded that credit dispersion has increased the income of the farmers even at the existing level of technology. Using modern technology without credit would not have significant impact on the income of the farmers.[23]

B.S. Rohilla in his study entitled "Initiatives of NABARD for rural non-agricultural financing and development" discussed the major credit, promotional development and development scheme of NABARD for non-farm sector development such as training cum production centres, rural entrepreneurship development programmes, mother units etc. The article also emphasizes on strengthening linkages between Self-Help Groups and banks as well as international collaborations by NABARD for the non-farm sector growth.[24]

J.S. Hanamashetti & M.D. Dodkey in their work "NABARD's Role in Rural Credit" studied that the National Bank for Agricultural and Rural Development (NABARD) is an apex development Bank of the country for promoting sustainable and equitable agriculture and rural development through effective credit support related services, building institutions and other innovative initiatives. NABARD today is at the centre of the development activities in rural areas and bedrock of prosperous rural India. [25]

Rayudu on "NABARD's Rural Credit and Cooperatives" made a scholarly effort. He examined the role of the NABARD in rural credit with reference to cooperatives & analysed the process in its

[23] H.K. Pandey, Financing Agriculture, "Credit Needs in changing Agriculture-A case Study", Vol. IV, No. 2 July 1972

[24] B.S. Rohilla, Cooperative Perspective, "Initiatives of NABARD for rural non-agricultural financing and development" Vol. 31, No. 2, July-September, Publication Division, New Delhi

[25] M.D. Dodkey and J.S. Hanamashetti, Kurukshetra, "NABARD's Role in rural Credit", Vol No. 47, No. 11, Publication Division, New Delhi, Aug. 1999

refinance activities during its short period of working. The various areas covered for analyzing were functions, re-finance to cooperative, schematic assistance to cooperatives, disbursements, purpose-wise distribution, loans to state Governments for contribution to share capital of cooperative institutions, medium & short-term loans to SCBs.[26]

Surindar Sud in his article emphasised on strengthening of the NABARD. He proposed in his study to increase the share capital of the NABARD, the apex agriculture refinance body, from Rs. 500 crore at present to Rs. 2000 crore in the next five years. He has also suggested to the private local area banks to help in mobilising the rural savings by local institutions and make them available for investment ir. the same area.[27]

Another article by Shojakhani in "Critical Evaluation of the Role of NABARD in strengthening the Cooperative Movement" emphasizes on strengthening of cooperative movement firstly at grass root level so that it can cater to expanding credit needs of India's rural economy & secondly at apex level for developing policies and procedures to serve rural economy. At last, in conclusion the author has given solutions of the problem to launch a special fund named cooperative rehabilitation fund out of its profits & this fund to be utilised for advancing necessary finance, at only service charges. [28]

[26] C.S. Rayudu, Indian Cooperative, "NABARD's Rural Credit and Cooperatives", National Cooperative Union of India , January 1986

[27] Surinder Sud., Kurukshetra, "Budget and Agriculture", Govt. of India, Vol XLIV, NO. 11, New Delhi, August 1996, p. 6

[28] Dr. Mohsen Shojakahani, Indian Cooperative review, "Critical Evaluation of the Role of NABARD in strengthening the Cooperative Movement", National Cooperative Union of India, New Delhi, Oct. 1993, pp. 161-173

G.P.Gupta (1982) gave a varied look on the structure of agencies providing credit in rural areas. He concluded in his study that "In the matter of structuring the agencies for rural credit: one must not only take full account of spectacular increase in the tempo of agricultural activity; it must also be based on various other important implications of the new situation which is emerging with the change in the outlook, occupational structure and socio-economic aspirations of rural sector.[29]

The paper of Mathur and Singh concentrates on the strategies and policies adopted by the NABARD with respect to schematic refinance of investment for rural development and pleads for major policy review in the context of less satisfactory rural development. They also highlighted the technological problem of industrial sector in rural areas and have asked for its solutions. At the end the author has also given suggestions that NABARD can perform the task of providing finance with the help of rural capital and if needed, attracting capital from elsewhere.[30]

Dixit in his article has mostly concentrated on the problems of agriculture and rural development in the country and how NABARD should overcome these problems. According to him NABARD should take care of rate of interest charged from the final borrower, create proper understanding between cooperative banks on one hand and the commercial and the regional rural banks on the other, strengthen and streamline the working of Primary cooperative Credit Societies, improvement of the operational

[29] G.P. Gupta, Cooperative Perspective, "The structure of Agencies Providing Credit in Rural Areas", VMNICM, Pune , January-March, 1982, p. 37

[30] B.L. Mathur & Bhagirath Singh (ed.), Experiences of Banking in Rural Development, "Schematic Refinancing for Rural Development by NABARD Needed Thrust of Technology based Rural Industrialisation", RBSA publishers, Jaipur, pp. 108-117

efficiency of cooperative credit agencies especially at every credit agency, commercial banks, cooperative banks and regional rural banks. [31]

Another article by Kumar and Shah highlights the problem of redefining the structure and functions of agricultural extension. Authors have reviewed some of those issues in this article that could be important determinants for the success of Agricultural Extension in the millennium & has further concluded with the suggestion that to strengthen the mutual and reciprocal interaction between research, extension and farmers, there is need to institutionalize more number of structural mechanisms simultaneously, their frequency of activities to be kept regular and contingent.[32]

Another article by Gopal "Agricultural Financing in Changing Perspective-An Overview" has stated that, no deliberate effort was made by the Indian Government for the development of agriculture and insufficient attention was given to this sector. The author remarks that no doubt, al er nationalization, the commercial banks are actively engaged in the task of financing agricultural sector, but even after the passage of two and a half decade, there appears to be no significant change in the socio-economic status of peasant community. Same restrictions like faulty lending policies, inadequate loan amount, non-cooperative attitude of bank employees and complicated procedures of granting loans by the banks, etc. are in the way of financing by the banks. The author

[31] Debendra Das (ed), Dynamic of Rural Development, "Institutional Financing and Rural Development", Deep and Deep Publication, New Delhi, 1994, pp. 219-220

[32] Dr. Shantanu Kumar & Uma Shah, Kurukshetra, "Agricultural Extention for Rural Development Issues and Challenges", Vol. 50 No. 4, published by Government of India, New Delhi, February, 2002, pp. 3-7

opines that the time has come to have a fresh look on the problems of the farmers and to persuade the banks to amend their existing banking practices, rules and regulations to enable the people to get the bank aid easily. [33]

While discussing various related issues Mr. P.V.A. Rama Rao in his paper "Institutional Mechanisms for Delivery of Rural Credit in India", has put his scholarly views about the cooperatives & rural credit in India. He has discussed the impact of economic liberalization, gave specific examples of the impact of deregulation of interest rates on deposits and advances and the Development Action Plans (DAPs), Memorandum of Understandings (MoUs) between cooperative banks, state governments & NABARD.[34]

The Indian Economic Survey 1999-2000 reveals that NABARD has taken several initiatives in the development of agricultural sector. In recent years Kissan Credit Card (KCC) and the Self Help Groups (SHGs) have been introduced for this purpose. NABARD has increased its capital base form Rs. 500 crore to Rs. 2000 crore so that it can leverage its capital funds for raising more resources. NABARD also looks after the short-term credit requirements of cooperatives and Regional Rural Banks (RRBs). It has introduced Rural Infrastructure Development Fund (RIDF) in 1995-96 to provide funds to state Governments and state owned corporations to enable them to complete various types of rural infrastructure projects. [35]

[33] Raja Gopal, Agricultural Banker, "Agricultural Financing in changing perspective: An overview", Vol. 10 No. 4, New Delhi, Oct. Dec. 1987
[34] The SAARC Conference, "A regional consultation on the cooperatives: Policy Issues for the SAARC Region" at the Lal Bahadur Shastri Institute Mussoorrie, U.P.
[35] Indian Economy Survey, 1999-2000, Akalank Publications, March 2001, New Delhi, p. 56

Chandra D.Wadhwa in his Rural Bank for Rural Development has made an attempt to evaluate the role of institutional credit in rural development. The author shows that several financial institutions have been established to fulfill the financial needs of rural poor & has given several reasons like influence of local leaders, complicated banking procedures, warm attitude of banking personnel, and corruption etc. due to which the poor have not been benefited at all. He mostly stresses upon the point that rural banks must develop simple schemes and cooperative attitude for providing requisite financial help and assistance to the needs of rural poor.[36]

Jacob has examined the role of nationalized banks in agricultural lending and found that there was satisfactory banking development in rural and semi-urban areas after nationalization. In his study he found that the small and marginal farmers were left on the mercy of the private moneylenders. Agricultural credit was found concentrated mainly in areas where there were better infrastructure facilities. He gave his suggestions that the principle of one farmer, one account and one source would benefit both farmers and institutions. [37]

Under refinancing programme classification, which was followed by Planning Commission and National Bank for Agriculture and Rural Development (NABARD) in India was that, (a) short term credit might go for 15 months; (b) medium term credit for above five years.[38]Similar classification under the refinancing programme of the National Bank for Agriculture and Rural Development, (a) short

[36] Charan D. Wadhwa, Rural Bank for Rural Development, Delhi, Macmillian & Company, 1980

[37] Joy Jacob, Nationalised banks and agricultural Finance with special reference to Madhya Pradesh, 1969-1975

[38] The Draft First Five Year Plan, p. 234

term credit would go upto 18 months; (b) medium term credit would cover periods between 18 months and seven years; and (c) long term credit might go for a period not exceeding 25 years. [39]

Bandyopadhyay studied agricultural credit with reference to small farmers in Gangetic plains of West Bengal. He examined the co-existence of multiple systems of loans, as the result of varying degree of bargaining powers of lenders and borrowers. The author has examined various points viz. imperfections of agricultural credit market rested with the lenders which enable them to charge high rate of interest on loans given to farmers. It concluded that small farmers did not have access to organized sector due to unfavorable terms and co nditions and hence are forced to borrow from informal sources.[40]

The National Bank for Agriculture and Rural Development's survey revealed, as pointed out by Rengan, that there had been a 20 per cent leakage in lending connected with the Integrated Rural Development Programme and 15 per cent of its beneficiaries were not poor.[41]

R.L. Singh is his study revealed the level of use and the rationale of allocation of credit between farm inputs and progressive farms in Varanasi district. They viewed that investment on irrigation and fertilizers had significant and positive impact on the level of total credit availed by progressive farms, while investment on draught cattle influenced the level of total credit in

[39] Annual Report- 1982-83, pp. 79-80

[40] Arun Kumar Bandyopadhyay, "An Analysis of Agricultural Credit with special reference to small farmers in West Bengal"

[41] Regan, The Hindu, "The Affluent benefit from IRDP (Integrated Rural Development Programme) Loans", Coimbatore, March 15, 1985, p. 12

less progressive farms. They also found that there is a positive role of credit on returns from crops.[42]

B.P. Sharma in "Role of commercial Banks in India's Developing Economy" has observed that through the financial institutions, particularly commercial banks have been playing a laudable role in the promotion of agriculture and in mobilizing rural savings but then also there remains a lot to be done. The banks have failed to touch landless labourers, small and marginal farmers who directly or indirectly need bank credit facilities.[43]

Misra has observed in his study that loan obtained from government in U.P. was the highest in the case of large sized farms. Short-term credit showed a remarkable impact on the output of major crops viz. paddy, wheat and sugarcane. The study has pointed out that there was much scope for increasing medium and long term advances.[44]

Lal highlighted the role of the institutional and non-institutional credit agencies in financing agriculture in eastern Uttar Pradesh. He revealed that 65.7 per cent of the sample household was in debt and 66.2 per cent of credit was diverted for consumption. Institutional agencies did not solve the credit needs of agriculture. The study concluded that the credit provided was not of right type, and did not serve the right purpose.[45]

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[42] L.R. Singh v.et.al., Indian Journal of Agricultural Economics, "The supply, Utilization and Economic Rationale of Credit use on Progressive and less progressive Farm", Vol. XXVII, No. 4, Oct.-Dec. 1971, pp. 474-79

[43] B.P. Sharma, "Role of Commercial Banks in India's Developing Economy", S. Chand & company, New Delhi,1974

[44] Jagdish Prasad Misra, "An Economic Appraisal of Farm Financing organizations and their operational efficiency in relation to credit needs of the farmers in block sadar, District Basti (U.P.)"

[45] Chhote Lal, Financing Agriculture in Uttar Pradesh

Sharma and Prasad studied the credit needs farm size-wise and region-wise at different stages of technological development in agriculture. Linear Programming technique was used to estimate credit requirements and its impact on cropping pattern and income. The study revealed that irrigated farms and improved technology would call for more credit. An adequate credit can increase income substantially even at the existing level of technology.[46]

Arumugan in his study revealed problems of the lenders at the institution level and borrowers at the farm level and also the factors contributing to better farm credit management. He concluded that the rural financial institutions supplied 28 per cent of the credit needs of the farmers. There were varying degrees of credit gaps among different farm size groups, while the gap was the highest for the smallest farm size group.[47]

Dhawan and Kahlon pointed out the inadequacy of institutional credit even at the existing level of technology. The functional analysis of this study revealed that the small farmers were rational in making investments on implements and machinery, milch animals, seeds, manures and fertilizers. Hence, they could further increase their income by expanding on labour and draught animals.[48]

The book Agricultural Indebtedness and Industrial Credit by R.K. Panda speaks of the fact that inspite of various measures

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[46] J.S. Sharma and B. Prasad, Indian Journal of Agricultural Economics, "An Assessment of Production Credit Needs in Developing Agriculture", Vol. XXVI, No. 4, October-December 1971, pp. 503-11

[47] M. Arumugan, "A study of Farm Level credit Management in Thondamuther Block", Coimbatoire District, Tamil Nadu

[48] K.C. Dhawan and A.S. Kahlon, Indian Journal of Agricultural Economics, "Adequacy and Productivity of Credit on the Small Farms in the Punjab", Vol. No. 4, Oct.-Dec. 1978, pp. 91-99

being taken by the government to provide institutional credit to small farmers and small entrepreneurs, small farmers are not free from the clutches of money lenders. The study shows that small farmers have not been benefited by institutional credit. Hence, the author suggest to take various steps for the effectiveness of institutional credit for the benefit of farmers.[49]

Rao and Rao examined in their book the role played by informal and institutional agencies in the supply of credit for financing modern inputs. The study shows that institutional sources met 39 per cent of the borrowings funds. According to the authors, productivity of land and potentialities for future investment and productivity of land could be improved if additional capital was given to the small and marginal farmers. [50]

Ram Davar in his work, "Institutional Finance to Small Scale Industries", has remarked that small-scale industries are instruments of socio-economic transformation of rural sector. He is of the view that small-scale industry suffers for want of adequate funds despite the efforts of the Government. He opines that finances are pre-requisite for the survival of small industries, and can be made available by the Government through commercial banks.[51]

Rao has emphasized that substantial credit was required to transform the traditional farming into modern farming. It revealed that gross farm output was much influenced by operating expenses

[49] R.K. Panda, "Agricultural Independents and Industrial Credit", Ashish Publishing House, New Delhi, 1985

[50] B. Pradad Rao and R. Mohan Rao, "The Economics of Farm Credit use and source of Finance in changing Agriculture".

[51] Ram Davar, "Institutional Finance to Small Scale Industries", Deep and Deep Publications, New Delhi, 1988

and working assets. It might be said that large portion of credit was used for operating expenses, while very little was spent on consumption expenditures. The study found that there were opportunities for productive investment of capital in small farms. [52]

A.S. Kahlon and Karan Singh in their work, "Managing Agricultural Finance" Pointed out that despite the presence of plethora of financial insti+utions like cooperatives, Regional Rural Banks and Commercial Banks etc. still the agricultural sector does not get sufficient funds. Keeping in view the shortage of agro credit, the need of effective management of agriculture credit has been stressed upon by the authors, as it is greatly needed in the adoption of new technology and improved methods and practices to enhance agricultural production.[53]

Patel and Patel, in their article highlight the incidence of borrowing and repayment made during the month of May-June. They have shown that there was a regular practice of adjusting loan repayment from fresh borrowing in the case of institutional credit.[54]

The study by B.N. Choubey, "Agricultural Banking in India" describes various institutions, which are actively engaged in the task of financing agriculture. But after reviewing the impact of the institutional credit on agriculture, it has been keenly observed by the author that inspite of various problems of institutions like cooperatives, commercial banks, Regional Rural Banks, Agricultural Refinance Development Corporations, and National

[52] B. Prasad Rao, "The Economics of Agricultural Credit use in Southern Brazil"
[53] A.S. Kahlon and Karan Singh, Managing Agricultural Finance Alied Publishers, New Delhi, 1985
[54] Jayesh J. Patel and R.D. Patel, Indian Cooperative Review, "Acquisition and Repayment Paterns of Agricultural cooperative credit in Anand Taluk Gujarat State", Vol. XVII, No. 3, April 1980, 231-240

Banks for Agriculture and Rural Development (NABARD) etc. the agricultural sector still has been short of adequate funds.[55]

R.K. Pany[56] J.P. Singh[57] in their books, "Institutional Credit for Agriculture in India" and "Role of Institutional Finance in Agricultural Development" have attempted to highlight the significance, need & meaning of institutional credit in the development of agriculture. They have made an effort to analyse some important issues pertaining to agricultural credit viz. improper financial assistance to agriculture, lack of simple and straightforward banking methods and procedures and non-repayment of agricultural loans by the farmers etc.

Another study made by Lee classified agricultural credit into three types namely (i) investment credit; (ii) operating credit; and (iii) consumption credit. Investment credit might be required for investment on land, building, machinery and livestock. These investments would give a good production. Credit required for operating expenses on feeding livestock, repairing farm machinery and buildings, buying seed and hiring labour, constitute operating cost. Consumption of credit, used to buy goods and services was not directly connected with the process of production.[58]

B.N. Choubey explained agricultural production credit as (i) settlement credit; (ii) development credit; and (iii) production equipment credit. Settlement credit would be defined as "Credit required for purchase of land for a new settlement, rehabilitation, rounding off holdings, construction of farm-shed and godowns.

[55] B.N. Choubey, Agricultural Banking in India, National Publishing House, New Delhi, 1983
[56] R.K. Pany, Institutional Credit for Agriculture in India, Ashish Publishing House, New Delhi,1985
[57] J.P. Singh, "Role of Institutional Finance in Agricultural Development", Ashish Publishing House, New Delhi,1985
[58] P. Lee Virgil, Principles of Agricultural Credit, pp. 49-77

Development credit would be required for permanent improvement or development of land, such as soil conservation, leveling, proper irrigation and drainage, fencing or enclosures, the building for proper barns and shearing sheds. Production equipment credit, was intended to provide production facilities and running or operational expenses which were less permanent as compared to land and its permanent improvements. These expenses were for major implements, livestock, plantation of fruit trees and expenses in payment of wages, purchase of seeds, fertilizers, fodder and other agricultural requisites.[59]

R.D. Sharma "Agricultural Financing in India-Role of State Bank of India", in an empirical study conducted to evaluate the role of State Bank of India in the agricultural development. The author remarked that State Bank of India has been playing an appreciable role in the development of agriculture inspite of having a wide network of branches.[60]

Jha in his study agricultural finance in Nepal revealed that 60 per cent of farmers borrowed and a large part of borrowings was for family expenditure. According to the author agriculture had not reached the stage where farmers could make a productive use of credit. He opines that credit institutions should meet all justifiable credit needs of farmers and also on the capacity of farmers.[61]

Reddy in his book has discussed the problem of distribution of institutional credit. According to him, the credit distribution is biased in favour of developed regional and big farmers. The dominance of agricultural moneylenders in comparison to

[59] B.N. Choubey, Institutional Finance for Agricultural Development, p. 14
[60] R.D. Sharma, Agricultural Financing in India, Bharat Book Depot, Bhagalpur, 1980
[61] Kumar Kant Jha, Agricultural Finance in Nepal-An Analytical Study.

professional moneylenders remains unchanged. He has given his views that the creation of cooperatives, RRBs & NABARD has improved the share of institutional credit in the total rural credit.[62]

Obul Reddy, studied the cooperative agricultural development banks with reference to Andhra Pradesh. He, in his study examined various financial operations of the banks such as loans, borrowings, recoveries, over dues and outstanding etc. [63]

N. Mohanan dwelt upon the Agricultural Development Finance with reference to small farmers, gave emphasis on the necessary effective participation of all farmers for agricultural development.[64]

An article by H.N. Rao, "Expanding Role of Banks in Rural Economy" tried to evaluate and predict the role of banks in the rural economy. He felt that no doubt, commercial banks have contributed substantially for the development, but then also bank credit has not helped landless labourers and small and marginal farmers so far. He mainly expresses that the banks shall have to play a leading role in this respect in the coming days. [65]

In this background the next chapter deals with the evolution of rural financing and Nabard .

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[62] Dr. A. Ranga Reddy, "Agricultural Development Rural Credit and Problems of its recovery," Mittal Publication, New Delhi, 1990

[63] D. Obul Reddy, Cooperative Agricultural Development Banks- A case study of Andhra Pradesh, D.K. Publication, 1986

[64] N Mohanan, Agricultural Development Finance, Rainbow Publication, 1981

[65] H.N. Rao, The Banker, "Expanding role of Banks in Rural Economy", vol. 34, No. 9, New Delhi, Nov. 1997

Chapter 2

Evolution of Rural Financing- A Study of Nabard

Chapter 2

Evolution of Rural Financing- A Study of Nabard

India is primarily an agricultural country. As much as, 72 per cent of the population of our country lives in rural areas. Agriculture forms the backbone of Indian economy and despite concerted industrialization in the last four decades; agriculture occupies a place of pride. Being the largest industry in the country, agriculture is the source of livelihood for over 64 percent of population in the country. Agriculture contributed the biggest proportion (about 48 percent) to India's national income & rural areas account for the bulk (about 80 percent) of the country's population. Many of the economic problems, therefore, lie in agriculture and rural areas. For solving these problems various efforts have been made for several decades in the past & they continues to be made for several decades in future. Provision of adequate, timely & cheap finance for the development of agriculture and allied activities is the need of the hour. The all-India Rural Credit Survey Committee observed that, "Agricultural Credit is a problem when it cannot be obtained, it is also a problem when it can be had but in such a form that on the whole it does more harm than good. It may be said that, in India, it is this two-fold problem of inadequacy and unsuitability that is perennially presented by the agricultural credit. Undoubtly an Indian farmer is not able to make the minimum use of his time, labour and productive capacity of his land because of the lack of adequate financial facilities". [1]

Over 80 percent of the 100 million operational holdings, are small and marginal farmers, whose credit needs are urgent and enormous. The rural credit system despite undergoing several reforms could not perform to an expected level only to leave a significant bank of 40 percent of marginalized population still unaltered by and large. It thus, implies that more concerted efforts are required to sustain progress.[2]

The majority of the poor lives in the rural areas and belongs to the categories of landless labourers, small and marginal farmers, rural artisans, fishermen and backward classes and backward tribes. These people either have no assets, relevant skills and no regular full-time jobs or very low paid jobs.[3]

The overall development of a farm and the farmers is possible through agricultural credit system. Agricultural credit is one of the most critical inputs in all the agricultural development programmes.[4]

During Vedas & Manusmrities

Rural credit system was evolved with the passage of time. Our Vedas and Manusmrities bear a good testimony to the existence and working of banking system in India. From the laws of

[1] IK. Debendra Das (Ed.), Dynamic of Rural Development, "Institutional Financing & Rural Development with special Reference to NABARD", Deep & Deep publications, New Delhi, 1994, p. 205

[2] Bhuban Chandra Barah, Report of the APO symposium in Agricultural Credit held in Tokyo, "India", Asia Productivity system, Tokyo, 2001, pp. 152-153

[3] V.M. Shah, Kurukehetra, "Cooperatives in support of Rural Development", Vol. No.8

[4] Dr. Jayashree & R.R. Bridar, Kurukshetra, "Rural Finance A village study", Vol. 48. No. 6, March 2000, p. 19

Manu it appears that money-lending and allied activities had assumed considerable importance and the deposit banking in some form had come into existence by the second or third century of Christian era. [5] During the smriti period, vaish community carried out the business of banking. The bankers in the smriti period performed most of these functions which the modern time banks perform such as accepting of deposits, granting loans to kings in the grave crisis, acting as a banker and treasurer to the state and issuing and managing the currency of the country".[6] Similarly, during the Ramayana and Mahabharata era banking had become full-fledged business activity.[7]

During Buddhist Period

The literature of Buddhist period supplies ample evidence regarding the exsiting of "shresths," "seths," "Shahukars" and bankers in all the important trade centres, which had widespread influence in the life of community. The famous French traveler J.B. Travermer wrote in seventeenth century that every Indian village had moneylenders called "shroff" who, according to him acted as a banker to make remittance of money and issue letters of exchange. During the medieval period too, Shahukars continued to carry out the banking business.[8]

During Muslim Period

During the Muslim period indigenous banking[9] which had fairly developed at that time received a great set back as the

[5] S.G. Panandikar, Banking in India, New Delhi, Orient Longman Ltd., 1969 p., 3
[6] M.C. Vaish, Modern Banking, Jaipur, RABSA Pub., 1984, p. 158
[7] Ibid. p. 168
[8] W.E. Panandikar, "Form the Remote Past to ensured Future", p. 4
[9] Indian Central Banking Enquiry Report, Vol. 1 part I, 1934, p. 34

Muslim rulers believed in Quranic injunctions which regard taking of byaz or interest as a great sin (Haram)[10] It appears from the writings of Muslim historians that during the Mughal period Hundis or indigenous bills of exchange came into existence. Hundi business played a prominent role in lending money, financing internal and external trade, and providing financing assistance to rulers during the time of crisis.[11]

During the British Period

With the arrival of Britishers in India, revolutionary change took place in all the facets of Indian life, viz. social, economical and political. The banking system too did not remain immune from this radical change.[12] In fact with the establishment of East India Company the downfall of Indian Banking system began as the Shahukars could not make necessary changes in the methods of their working to suit the changed economic conditions of India.[13] In the meantime, Industrial Revolution took place. It had a great impact on Indian economy and it can also be attributed as one of the most important factors responsible for the worse position of the banking system in India. People were getting employment opportunities in the factories and they did not remain dependent upon "Shahukars" or "Seths".[14]

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[10] M.C. Vaish, op. cit., p. 170

[11] Z.N. Mehta, Agricultural Banker, "Changing Scenario of Rural Credit", New Delhi, Vol. 9. No.,1 Jan.-March 1986

[12] R.N. Pandey, Commercial Banks and Rural Development, New Delhi, Deep and Deep Publication, 1989 pp. 66

[13] V.Desai, The Journal of Indian Institution of Bankers., "Restructuring of Banks in India", New Delhi, Vol. 27, No. 3, p. 47

[14] S.K. Basu, Industrial Finance in India, 4th ed., Calcutta University Press, Calcutta, 1961, P. 46

Role of Money lenders, Landlords, Traders and Commission Agents

Moneylenders, because of their strong socio-economic position in village and also because of comparative absence of alternative lending institutions of organized type, are in a position to resort to various objectionable practices in their financial dealings with their clients in rural areas.[15]

Landlords also provide finance to farmers and rural people. Generally, in rural areas small and needy farmers depend upon landlord to meet their financial requirements. They cheat the farmers and charge high rates of interest. The landless labourers were forced to become bonded.

Traders & commission agents provide finance for production purposes much before the maturity of the crops. In the case of crops like cotton, tobacco, sugarcane, tea, groundnut, etc., this source plays an important role. They force the farmers to sell their produces at lower pric 's and charge heavy commission for themselves.[16]

Cooperative Credit

The establishment and growth of cooperatives is regarded as one of the important as well as human advancement in developing countries.[17] A Cooperative Society is an association of people as a

[15] S.G. Panandikar and D.M. Mithani; Banking in Indian, 1975, p. 66
[16] R.P. Singh, Nabard, "The Structure of Agricultural Credit in India", Deep & Deep Publications, New Delhi, p.45
[17] Prof. U.M. Shah, Kurukhetra, "Cooperative Development Progress and Trends", Vol. No. 1995, p. 3

homogenous group, coming together voluntarily to overcome the common head or to do protecting or promoting their interests.[18]

Short-term & Medium-term Cooperative Credit

It is a three-tier system. At the village level there are primary cooperative credit societies, which are generally affiliated to District Central Cooperative Banks. The district cooperative banks in turn are affiliated to the State Cooperative Banks, also known as Apex Cooperative Bank. Thus, this segment of rural credit forms a pyramid. Strength of each part depends on the strength of each of three parts.[19]

Primary Agricultural Credit Society

It is the foundation stone on which the whole cooperative edifice is built. These have been also called as kernel of the cooperative institutions.[20]

Mr. F. Nicholson, who was deputed by the then provincial Government of Madras to introduce a suitable system to provide institutional credit to the poor peasants and save them from the clutches of the usurious private money lenders, summed up his report by stating "Find Raiffeisen"

That signified the organization of Primary Agricultural Credit Societies at the village level on the basis of unlimited liabilities and area of operation limited to a single village, that is to say, on the basis of the principle 'one village to one society' and 'one society to one village'. That organizational model as a substitute for private

[18] G.S. Kamat, Kurukshetra , "Cooperative and poverty removal", Vol. XXXV, No. 2-3 November-December, 1986, p. 13
[19] B.L. Mathur, (Ed.) K.S. Subrahmanya, Opp cit., p. 10
[20] B.L. Mathur, ibid. p. 10

moneylender was accepted and introduced in the country through of the Cooperative Societies Act, 1904. Thus, a cooperative form of organization at the village level was born out of the above piece of legislation which was intended to gradually cover all the villages in the country so as to relieve the poor peasants from the strangle hold of the moneylenders by providing institutional credit to them which would not only help them in reducing their private indebtedness but also provide them cheap and facile credit for increasing their agricultural production and through that the standard of their living.

Latest addition to these societies is the Farmers Service Societies (FSS) and the Large Size Adivasi Multi-purpose Cooperative Societies (LAMPS).

Recommendations for FSS

The National Commission on Agriculture which had examined in depth the requirements and problems in respect of credit services for small and marginal farmers and agricultural labourers came to the conclusion that the existing cooperatives have failed to take care of small and marginal farmers. The commission also found that even commercial banks failed to reach the small and marginal farmers. It also observed that whatever credit was made available to the farmers through cooperative or commercial banks was not integrated with easy availability of inputs, extension and other services for supporting production and successful marketing which resulted in inadequate and ineffective end/use of credit.

In the light of its findings, the Commission recommended the organization of Farmer's Service Societies (FSS) for each tehsil/block or any viable unit of convenient size with as many branches as might be required in the area.

Bawa Committee- LAMPS

In the meantime, a special Study Group was appointed to go into the institutional arrangements for providing agricultural credit and other facilities for development of agriculture and allied activities in certain backward tracks and Adivasi/Tribal areas. The Bawa Committee recommended the organization of Large Sized Adivasi Multi-Purpose Cooperative Society (LAMPS) in Tribal areas. This recommendation has also been accepted and LAMPS have been organized in Adivasi/Tribal areas.

From the above, it may be seen that, at the primary level three types of cooperative organizations have been accepted, namely, PACS, FSS and LAMPS, the cooperative feature of which is already indicated.

Origin of Central Cooperative Banks

In order to mitigate the problems facing by the primaries, the Central Government passed another cooperative legislation in 1912. The Act of 1912 provided for the organization of higher federal societies. Taking advantage of the new enactment, primary cooperative credit societies in compact areas federated themselves into banking unions and formed Central Cooperative Banks which in view of their financial strength and management competence were expected to mobilize funds from urban areas to village societies most of whom were starving for want of funds. Thus, Central Cooperative Banks as federal institutions,-formed, composed and governed by primary societies themselves, came to be organized all over the country.[21]

Following the recommendations of the All-India Rural Credit Survey Committee (1954) the structure of Central Cooperative Banks was rationalized and small banking unions/Central Cooperative Banks in a district were recognized into a single District Central Cooperative Bank with a view to make it strong and viable institution. Thus, Central Cooperative Banks constituted the second tier in a three-tier cooperative agricultural credit structure in the country.

Central Cooperative Banks get loans from state Cooperative Bank and give loans to Primary Credit Societies. The duration of such loans varies from one year to three years. In this way Central Cooperative Bank plays a bridge role between state cooperative Banks and Primary Credit Societies. At the end of June 1995 there were 352 Central Cooperative Banks working in the country.[22]

State Cooperative Bank (SCB)

The main objective of a State Cooperative Bank is to mobilize financial resources and make it available for provision of short and medium-term loans to agriculturists through the mechanism of Central Cooperative Banks at the district level and PACS at the village level, and spearhead the extension of banking facilities in the rural areas.

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[21] Ibid. pp. 136-137
[22] Pratiyogita Darpan Ibid. p. 90

In the context of planned economic development, the State Cooperative Banks have become a very important instrument in the hands of the State for regional planning and area development. They help in coordinating their own policies with that of the movement and the government. At present 28 SCBs are working in the country.[23]

Long Term Cooperative Credit

For long-term financial requirements of farmers Cooperative Credit Land Development Banks were constituted. These banks provide long-term loans to farmers for purchase and improvement of land, repaying old debts etc. These banks have two-tier organizational structure: Central Land Development Banks at State level called as State Land Development Banks and Primary Land Development Banks at District or Block Level.[24]

(a) Village Development Bank

First time In 1927 in Madras this bank was named as Land Mortgage bank which further in 1964 was nomenclatured as Land Development Bank. After 1991 with changes in it this bank came to be known as Agriculture & Rural Development Bank (ARDB). Now this bank in 1994 came to be known as village Development Bank in U.P. A State Cooperative Land Development Bank is a state level agency formed on cooperative basis for providing long-term credit and investment finance for development of agriculture and allied economic activities.

[23] Pratigygita Darpan, Ibid. p. 90
[24] Pratiyogita Darpan opp cit.,. p. 103

Urban Cooperative Banks:

Urban Cooperative Banks are an important constituent of the banking sector in our country. The urban cooperative banks are serving the community with distinction. As per RBI directive 60% of their credit supply including 25% of advances for weaker sections is canalized towards priority sector. Rest of their investments have been with the state cooperative banks and district central cooperative banks which in turn are providing loans to the priority sector including agricultural & weaker sections of the society.

There were 1811 Primary (urban) Cooperative Banks at the end of March 1998 working in the country with their 5229 offices, Primary Cooperative Banks (PCBs) have to disburse 60% of their total advances to primary sector and at least 25% to weaker section of the society.[25]

Evolution of Commercial Banks

Earlier the farm financing was the monopoly of the Cooperatives but they could not meet the increasing demand of credit in this sector due to technological breakthrough in the field of Indian Agriculture and acceptance of credit as an important input by the farmers for increasing production and for raising their standard of living. For the first time in the year 1967 the commercial banks were asked to finance agriculture also under the scheme of social control, although the real emphasis came only

[25] Pratiyogita Darpan ,Money & Banking, , Upkar Prakashan, Agra. 2003, p. 90.

after the nationalization of major commercial banks in July, 1969.[26]

The seeds of modern commercial banking on British pattern were sown during the time of East India Company (established on 22nd September 1599) as the Company greatly felt the need of banking concerns. Their first attempt in this direction was made during the last decade of eighteenth century. The English Agency House (In the beginning the Commercial Banks used to be turned as Agency Houses) in Calcutta and Bombay began to serve as bankers to the East India Company. They financed the movement of crops, issued papers, money and paved the way for the establishment of joint-stock banks (those banks that are registered under the Indian Companies Act. They are normally called as Commercial Banks which specialise in financing internal commerce trade and industry) also. The earliest of these was the Hindustan Bank, which was established in 1770 by one of the Agency Houses in Calcutta.[27] But it was closed in 1832, when the firm of Alexander and Company with which it was mainly connected failed.

The real stimulus for the establishment of joint stock banks was provided by an Act passed in 1813, which removed all restrictions on European setting in India. As a result several new banks were established.

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[26] M.S. Aulakh, , Kurukshetra, "How banks are aiding Rural Development", Vol. XXI, No. 1 Feb. 1983, p. 7

[27] S.G. Panandikar, Op. cit., p. 18

Nationalisation of 14 Banks

The Indian economy has been fast developing under the impact of planning. The nationalization of 14 top banks in July 1969 gave banking a sense of direction and purpose. [28]

Commercial Banks can be divided into two groups: public and private sector banks. The public sector group is the most important sector and consists of the State Bank of India along with its seven affiliates and 20 other nationalized banks. [29]

The Ordinance dated 19th July, 1969 declared the acquisition of the following 14 major private Commercial Banks by the Central Government: The Central Bank of India, Limited, The Bank of India, Limited, The Punjab National Bank of India, Limited, The Bank of Baroda, Limited, The United Commercial Bank, Limited, Canara Bank, Limited, United Bank of India, Limited, Dena Bank, Limited, Syndicate Bank, Limited, The Union Bank of India, Limited, Allahabad Bank, Limited, The Bank of Maharashtra, Limited, The Indian Overseas Bank, Limited, Indian Bank, Limited.[30]

Subsequently, the Ordinance was replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, which came into force on 9th August 1969. The names of the above-mentioned 14 banks were incorporated in the first schedule of the Act after dropping "The" prefix and suffix "Limited". Otherwise, the identity of all these banks has been kept intact and they are

[28] Sundaram, Money Banking and International trade, "Indian Banking, System" Sultan Chand & Sons, New Delhi, 1990, p. 256
[29] S.K. Sinha, Opp cit., p. 12
[30] B.N. Choubey, Opp cit., p. 74

functioning as usual. The property in these banks now vests in the Union Government as per the provisions of the Act.

Nationalisation of 6 More Banks

On April 15, 1980, the President of India issued an Ordinance nationalising 6 more banks each with demand and time liabilities in India of not less than Rs.200 crores. The 6 banks were: The Andhra Bank, Limited, The Corporation Bank, Limited, The New Bank of India, Limited, The Oriental Bank of Commerce, Limited, The Punjab & Sind Bank, Limited, The Vijaya Bank, Limited.

With the nationalization of above 6 banks, the number of public sector banks excluding Regional Rural Banks increased from 22 to 28 (comprising the State Bank of India and its 7 subsidiaries and 20 nationalized banks).[31]

At present 27 commercial banks in public sector are working in the country. Out of these 27 banks, 19 banks are nationalized banks (Earlier this number was 20 but New Bank of India was merged with PNB leaving this number to 19).

Commercial Banking System in India consisted of 297 Scheduled Banks (including foreign banks) and one non-scheduled bank at the end of December 2000. Over the period March 1999 to March 2000, the number of scheduled banks decreased by 8. Of the scheduled banks, 223 are in public sector and these account for about 82% of the deposits of all scheduled banks. These are

[31] Pramod S. Bhatnagar, Kurukshetra "Banking the Unbanked regions" , Vol. XXXVII No. 10, July 1990, p. 14

also categorised as scheduled commercial banks. The number of nationalized commercial banks is 19.

At the time of banks nationalization (i.e., July 1969) there were 8262 branches of various commercial banks (1860 in rural areas and remaining 6402 branches in urban areas). In other words, in 1969 only 23% of total bank branches were working in rural areas. But on June 30, 2002, total number of bank branches increased to 66239. Presently, 49% of total branches are working in rural areas. There is one bank branch working for 15,000 people while there was one branch for 64000 people in 1969.

Establishment of State Bank of India: -

The Imperial Bank of India was established in 1921 by the amalgamation of the three Presidency Banks (Bank of Bengal established in 1909, Bank of Bombay established in 1840, and Bank of Madras established in 1843) with their 70 or so branches. After the establishment of the Reserve Bank of India in 1935, the Imperial Bank of India ceased to function as the sole banker to the Government but where the Reserve Bank had no branches, the Imperial Bank continued to function there as the agent of the Reserve Bank of India for the purpose of transacting the business of the Government.

They were thus not equipped to satisfactorily respond to the credit needs and requirements of the agricultural sector in particular and the rural sector in general. It may be said that participation of the State Bank of India was the outcome of the recommendations of the Committee of Direction of the All India

Rural Credit Survey appointed by the Government of India in 1951 to review the problem of rural credit.

The Committee strongly recommended the setting up of a State Bank as "one strong integrated State-partnered commercial banking institution with an effective machinery of branches spread all over India providing remittance facilities to cooperative credit societies and other commercial banks and following a credit policy in accord with the national plans and priorities and thus making efforts to meet credit needs of the agricultural sector without departing from the sound principles of commercial banking". Thus, on the basis of the above recommendations of the All-India Rural Credit Survey, the State Bank of India Act was passed in 1955. Accordingly, the State Bank of India was constituted on 1st July 1955 as a successor to the Imperial Bank of India. Later on in 1959 the State Bank of India (Subsidiary Banks) Act was passed enabling the State Bank of India to take over its subsidiaries. [32]

The SBI helps cooperative movement in granting long-terms loans to the agricultural sector.

Evolution of Lead Bank

In October 1969, the study Group on "Organizational Work for the Implementation of Social Objectives", appointed by the National Credit Council, under the Chairmanship of Prof. D.R. Gadgil recommended the adoption of "area approach for the development of credit and banking in the country on the basis of local conditions. For this purpose, it suggested that commercial banks should be assigne l particular districts where they should

[32] S.S.M. Desai, Agriculture & Rural Banking in India, "The State Bank of India", Himalaya Publishing House, Bombay, 1989, p. 316

act as pacesetters in providing integrated banking facilities. A committee of bankers, under the Chairmanship of Shri. F.K.F. Nariman, appointed by the RBI soon after the nationalization of banks, endorsed the above view and felt that for assisting in the process of regional development each bank should concentrate on certain district. [33]

The main functions of the Lead Banks are:

1. To survey the number of industrial and commercial units and other establishments and farms which do not have banking accounts or which depend primarily on moneylenders.
2. To examine the facilities for marketing of agricultural produce and industrial productions, storage and warehousing, space and linking of credit with marketing in the district.
3. To recruit and train staff for offering advice to small borrowers and farmers.

In short, the Lead Bank is expected "to act as consortium leader and invoke the cooperation of other banks operating in the district in the mobilization of deposits, locating actual and potential credit needs and catering for these". [34]

The Banking Commission came across two divergent views on the role of the Lead Bank Scheme. One view was that the Lead Bank conducted the district survey, identified places of banking potential and offered the list to all interested banks to open branches; the Lead Bank itself would open branches only in those places which were not taken up by other banks. The second view was that the Lead Bank had the full responsibility to open branches in the district entrusted to it. This confusion as to the

[33] I.C., Dingra, Rural Banking in India, "Commercial Banks and Regional Rural Banks", Sultan Chand & Sons, New Delhi, 1993,. P. 243
[34] Reserve Bank of India, Report , 1971, p. 69

real meaning and content of the Lead Bank Scheme naturally hampered the progress of the scheme in the initial years.

The Banking Commission found that the Lead Banks were not properly equipped to conduct the techno-economic surveys of the district allocated to them. Besides as the Banking Commission opined, the functions of planning and that of banking were separate; it should be the responsibility of the State Government and not of the Lead Bank to plan the development of district.

The Banking Commission pointed out serious difficulties at the operational stage. The Lead Bank was expected to be a coordinating agency for commercial and cooperative banks, short-term and long-term credit, and financial institutions and the district authorities in the State. The commission pointed out that the Lead Bank had no authority over the others nor was it necessary for the others to approach the Lead Bank for any specific purpose. Besides, in a far-off district, comparatively junior officers of a Lead Bank might be posted and they might find it difficult to get the necessary cooperation from officers of other banks if the latter happened to be seniors and these were real obstacles.[35]

Village Adoption Scheme

In order to approach the unbanked areas of the district, a techno-economic survey of the area under the jurisdiction of the lead bank was conducted. The lead banks were then asked to select a needy village or a cluster of villages and extend need-based credit facilities to all the viable and potentially viable farmers.

[35] Sundaram, Op. cit., p. 536

Service Area Plan

This scheme focused on micro level credit planning. Under this plan, the entire responsibility of assessing and meeting the credit needs of all the approximately 6 lakhs villages in the country are assigned to the br unches of commercial banks and the cooperative banks. Fifteen to twenty villages are assigned to each bank. This approach aims to coordinate the commercial banks credit and cooperative credit to serve the area.

Intensive Centre Scheme

This scheme was introduced by the State Bank of India. Under this scheme State Bank selected compact area (mostly backward area) where the financial needs of all the aspects of its economy are looked after.[36]

Origin of Regional Rural Banks

However, despite the tremendous growth of the cooperatives and the commercial banks as purveyors of rural credit, the Committee on Rural Banks constituted by the Government of India reported in 1975 that non-institutional credit in rural areas still amounted to two-thirds of the total credit. There were still many unbanked areas.

The demand for rural credit was on the increase owing to adoption of modern agriculture which increasingly required larger amount of capital both short term, for purchase of inputs like chemical fertilizer, HYV seeds, pesticides, etc. and medium/long term for farm mechanization and land development, etc. Further, in

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[36] S.A.R. Bilgrami, An Introduction to Agricultural Economic , "Rural Credit", Himalaya Publishing House, Bombay, 2000, pp. 276-277

respect of meeting the credit gap in rural areas it was being felt that cooperative credit structure as also the commercial banks were exhibiting certain inherent weaknesses. In cooperative credit structure it was observed that a number of base level cooperative units in the village were lying dormant and in others, financial assistance was being made available to only a few influential members of the societies year-after-year. Small and marginal farmers and more so the agricultural labourers continued to starve for want of credit from the primary cooperative societies.

As per the classification of the cooperative units at the close of June 1975 in terms of audit norms of RBI, 70 per cent of the primary societies, 52 per cent of the central cooperative banks and 44 per cent of the land development banks were classified as "weak" on all India basis.

On the other hand, commercial banks too had their weaknesses. Even with much increased network of rural branch offices the commercial banks could not reach the interior rural hinterland. And even where the rural branch offices of the commercial banks were operating, the impact in terms of rural banking was not discernible since the staff at these branches coming from urban culture behaved more like an outsider. Psychological barriers existed between the bank staff and the customers from rural areas telling upon the performance of the branch offices.

These offices were seemingly aimed at mopping up deposits from the rural-rich rather than deploying credit to the needy-poor. Another important feature observed in the commercial banks was the costly infrastructure, which their rural branch offices could illafford owing to low volume of business in comparison to semi-urban/urban areas. Uniformity in compensation and other service rules of staff, irrespective of whether they are working at rural or urban branch office, could hardly allow lower establishment and maintenance expenditure for rural offices even if volume of business at the rural branch office was at the lower ebb.

In view of the aforesaid, the idea of setting up some kind of rural banks was proposed by the Banking Commission set up in 1969 in its report submitted in 1972. It was proposed to establish a new class of rural banks, which could be combining strong features of both the cooperative and the commercial banks for filling the credit gap especially for medium and small cultivators.

With this background the government appointed a Working Group on Rural Banks on 1 July 1975 under the chairmanship of M. Narasimhan (Additional Secretary in the Department of Banking and later Governor of RBI) to examine in depth the setting up of new Rural Banks as subsidiary of public sector banks to cater to the financial requirements of rural people. On 26th September 1975 RRBs was established.

Thus, RRBs have some features of cooperatives and some of Commercial Banks. Like cooperatives they are rural oriented and they are familiar with rural problems. The cost of management is also low since local people are recruited at a low salary. Side by side, like Commercial Banks, they operate as business organisations. They are empowered to mobilise deposits and they have access to central money market. Their outlook is also more modernized in comparison to cooperative part of the organisation.

In other words, RRBs work as hybrid of cooperative and Commercial Banks in rural sector of our economy.[37]

The main objective of RRBs is to develop rural economy by providing credit and other facilities for agriculture, trade, industry and other productive activities in rural areas with particular emphasis on the needs of small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. In view of these objectives, directives were been given by the Government of India, that RRBs should confine their lending only to weaker sections. [38]

The flow of Institutional Credit for Agriculture and Allied Activities

The flow of institutional credit for agriculture and allied activities has increased from Rs. 18,744 crore in 1994-95 to Rs. 36,897 crore is 1998-99. The total credit flow from all agencies went up to Rs. 46,268 crore by 1999-2000. Agency wise disbursement of Agricultural Credit from 1994-95 to 2002-03 is shown in table 2.1.

[37] Kailash Chandra Mishra, Ibid. p. 27
[38] B.N. Choubey, p. 95

TABLE 2.1

Flow of Institutional Credit to Agriculture

(Rs. Crore)

Institutions	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01 $	2001-02 @	02-03 (Target)
Cooperative Banks	9,406	10,479	11,944	14,085	15,916	18,363	20,784	27,080	35,111
Short term	7250	8331	9328	10,895	12,320	14,845	16,564	21,542	24,711
Medium/Long term	2156	2148	2616	3,190	3,596	3,518	4,220	5,538	10,400
Regional Rural Banks	1,083	1,381	1,684	2,040	2,538	3,172	4,219	4,956	5,745
Short-term	688	849	1,121	1,396	1,691	2,423	3,239	3,415	3,145
Medium/Long -term	395	532	63	644	847	749	980	1,541	2,600
Commercial Banks	8,255	10,172	12,783	15,831	18,443	24,733	27,711	31,964	41,217
Short-term	N.A.	5345	6549	8,349	9,622	11,697	13,480	16,004	17,073
Medium/Long term	8265	4827	6234	7,482	8,821	13,036	14,231	15,960	24,144
Total	**18,744**	**22,032**	**26,411**	**31,956**	**36,897**	**46,268**	**52,714**	**64,000**	**82,073**
Per cent Increase	**14**	**18**	**20**	**21**	**15**	**26**	**14**	**21**	**28**

@ Estimated, $ Provisional
Source : Economic Survey of Various Years, GOI, New Delhi

It is estimated to have increased to Rs. 53,504 crore in 2000-01 the total credit flows from all agencies and has reached to a level of Rs. 66,771 crore by 2001-02. The total credit flow to agriculture during the period 1997-2002 is likely to be of the order of Rs. 2,33,700 crore, which is close to the ninth Plan projection of Rs. 2,29000 crore. For the Tenth Plan Period (2002-07) the credit flow into agriculture and allied activities for all banking agencies is projected Rs. 7,36,570 crore which is more than three times the credit flow during the Ninth Plan. [39]

Evolution of Reserve Bank of India

The history of Reserve Bank of India is closely associated with the realization of the need for a Central Bank in the country and

[39] Pratiyogita Darpan, Ibid. pp. 60-61

the proposals made from time to time for setting up a Central Bank.

The idea of starting a central bank in India goes to Warren Hastings, Governor of Bengal, when he placed before the Board of revenue his plan for a General Bank of Bengal and Bihar. It was only towards the end of the 19th century and beginning of the 20th century that the term central bank came to be used in the official dispatches. It performed only two important central banking functions banker to the Government and, to some extent, bankers bank. The other central banking functions, notably the regulation of note-issue and the management of foreign exchange, were not entrusted to it. These functions continued to be performed by the government.

In 1925, the Hilton Young Commission was appointed. Though the terms of reference did not mention anything about the setting up a central bank, the Commission, in its report submitted in 1926, strongly recommended the establishment of a central bank in the country. It also suggested that it should be called the Reserve Bank of India and that it should take over the central banking functions that the Imperial Bank had been performing so far. The bill was duly passed by the Assembly and became an Act on March 6, 1934, when the Governor-General signed it. The Reserve Bank of India was formally inaugurated on April 1, 1935.

Functions of RBI in the Sphere of Rural Credit

The broad functions of the Reserve Bank in the sphere of rural credit were

(a) to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, state cooperative banks and other banking organizations, and

(b) to co-ordinate the operations of the bank in connection with agricultural credit and its relations with state cooperative banks and other banks or organizations engaged in the business of agricultural credit.[40]

The activities of the Reserve Bank in the sphere of rural credit have evolved as a result of the gradual development of the functions implicit in the above statutory provision and are in harmony with changes in the governmental policies in the wider sphere of economic development. The attainment of independence by the country, the nationalization of the Reserve Bank, the ideal of a socialistic pattern of society and the adoption of a policy of planned economic development have all contributed towards the expansion of the role of the Bank in the sphere of rural finance. It has been an accepted view that in a predominantly agricultural country rural credit should form a sphere of major interest of the Central bank and that its activities in fostering and regulating the credit system of the country as a whole would be successful only if

[40] Role of the Reserve Bank of India in Rural Credit: Reserve Bank of India, Agricultural Credit Department (1964) pp. 1-2

it played a vital role in promoting the development of a sound system of agricultural credit. [41]

The Agricultural Credit Department was organized simultaneously with the establishment of the Reserve Bank in 1935. The record of activities of the Department in the sphere of agricultural credit falls into four distinct phases.

(1) From the inception of the bank in 1935 to 1947 which may be called the pre-Independence period.

(2) From 1947 to 1954, till the publication of the All India Rural Credit Survey Report, which may be called post-Independence period.

(3) The third phase commenced from 1954 with the publication of the Rural Credit Survey Report.

(4) The fourth phase has commenced with the publication of the Rural Credit Review Committee Report in 1969.[42]

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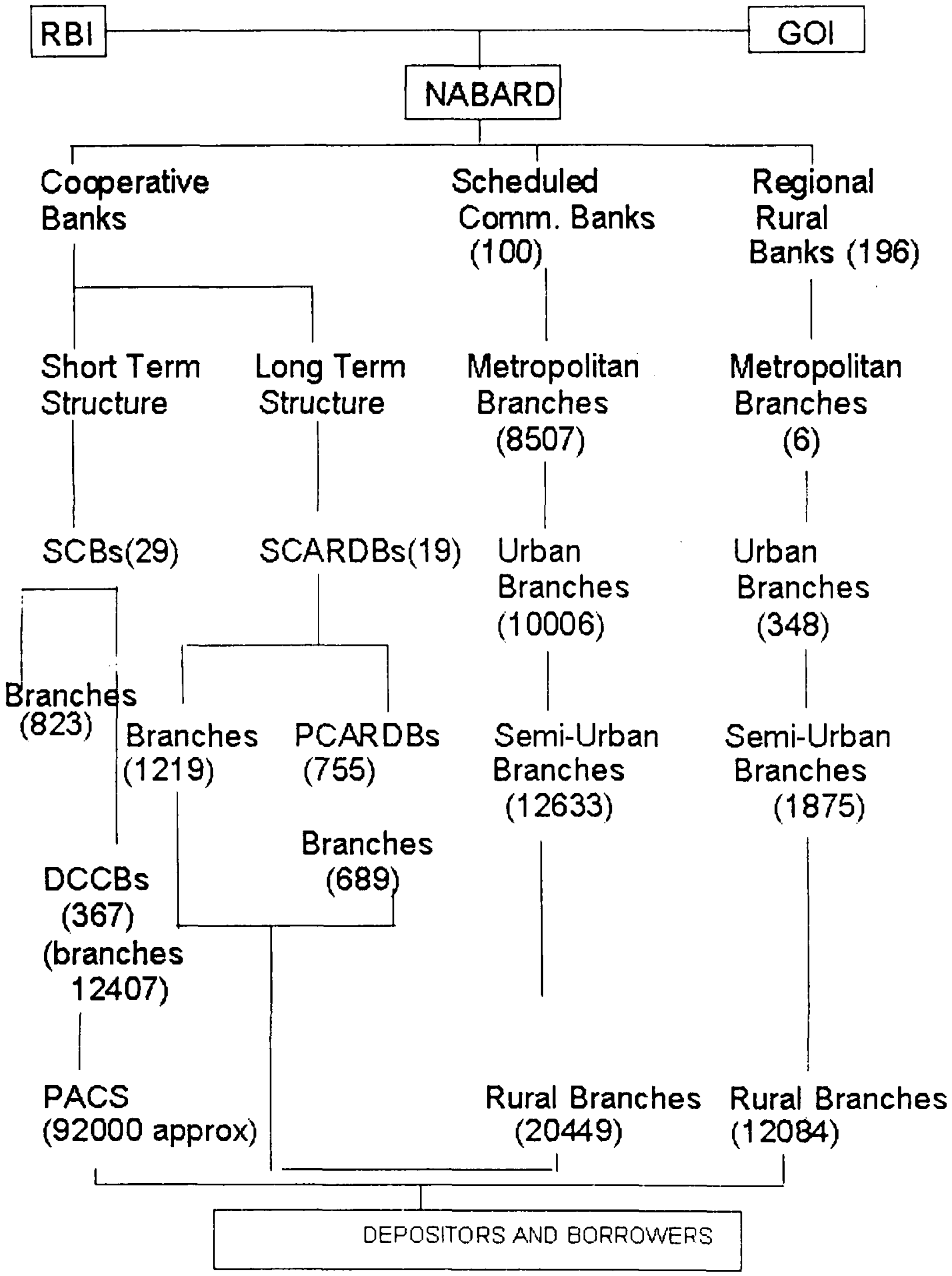
[41] Report of the All India Rural Credit Review Committee, p. 695
[42] Role of the Reserve Bank of India in Rural Credit , op.cit., p. 9

Institutional Structure - Agriculture & Rural Credit in India



Position as on 31 March 2001

Note: In addition to above agencies Urban Cooperatives Banks and Local Area Banks are also participating in purvey of credit for Agriculture and Rural Development

Setting up of Agricultural Refinance and Development Corporation (ARDC)

The committee on Cooperative Credit (V.L. Mehta Committee, 1960) recommended the widening of the role of the Reserve Bank of India and laid emphasis on augmenting the long-term resources of the cooperative credit structure by increasing the RBI's contribution to the Long-term operations fund as temporary measures. But they did recognize the need for a permanent All-India Corporation for the development of agriculture. Accordingly, setting up of such a Corporation has been included in the 'Third Five Year Plan and suitable legislative action was also taken to set up a Development Finance Corporation for Agriculture.

Agricultural Refinance Corporation was set up on March 14, 1963. Subsequently with a view to enlarge the scope of its functioning and in order to emphasize the developmental and promotional role it was renamed as Agricultural Refinance and Development Corporation (ARDC) by amending the original Act in 1975.[44]

Objectives

(i) According to the statue, the Corporation was to provide such financial assistance to eligible institutions as it considers necessary for promoting the development of agriculture in India and agriculture has been defined as including animal husbandry, dairy farming, poultry farming and pisciculture involving development of both

[44] B.N. Choubey, Agricultural Banking in India, "The National Bank for Agriculture & Rural Development", National Publishing House, New Delhi, 1994, p. 60

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inland and marine fisheries, catching of fish and activities connected therewith or incidental thereto.[45]

Major weaknesses in the working of the ARDC are as follows:

One, the ARDC was unable to ensure that the borrowers under its schemes did always get the necessary supporting short-term credit and thus build up their earning or repaying capacities to the extent envisaged.

Two, its support to activities not based on land did not reach a significant level compared to the need for promotion of such activities in the context of integrated rural development.

Three, the ARDC did not make a satisfactory response to the increasing demand from State Governments and others for direct financing as distinguished from refinancing.

Four, the ARDC could not expand its development role in the field of institution building, training and research.

In view of the above weaknesses in the operations of the ARDC, it was finally decided to merge this institution, along with the Agricultural Credit Development of the RBI, with the newly proposed national level institution, the NABARD.

With the widening role of bank credit from agricultural development to rural development, a need was felt for a more broad based organization at the apex level to give support and guidance

[45] I.C. Dhingra, Rural Banking in India; "Reserve Bank of India, Nabard & other Institutions", Sultan Chand & sons; New Delhi; 1993; pp. 301-302

to credit institutions in formulation and implementation of rural development programmes. [46]

GENESIS OF NABARD

The National Bank has its genesis in the recommendations of the National Commission on Agriculture. The Commission suggested that to overcome difficulties being faced by farmers in obtaining credit and other inputs, an integrated approach should be adopted for the supply of services and inputs, including credit. The Commission had recommended that all types of credit needs should be met through a single integrated agency leading up to an Agricultural Development Bank at the apex. It was suggested that such a Bank could consolidate expertise and experience of various national level agencies into a single national organization directing the flow of Agricultural credit according to the needs.[47]

In 1969 the All India Rural Credit Review Committee (Venkatappaiah Committee) had rejected the demand on the grounds that new institution outside RBI will only add to the cost of credit and red tape without resources or efficiency to the system or service to cultivators. In 1972, Banking Commission also examined this aspect but favoured merger of ARDC i.e. Agricultural Refinance and Development Corporation and Agriculture Finance Corporation (AFC) with RBI and opined that short-term credit should remain with RBI. However, in 1976 the National Commission on Agriculture advised RBI to take steps for integrating the total structure for financing agriculture and rural

[46] P.S. Grewal, Rural Banking in India; "Public Sector Banks & Agricultural Finance", Kalyani Publishers, New Delhi, 1985, p. 152
[47] Dr. B.S. Mathur, Cooperation in India, "National Bank for Agriculture and Rural Development", Sahitya Bhawan, Agra, 2000, p. 461

development from ground level upwards-right upto the creation of an Agricultural Development Bank of India at the apex, and advised RBI (1979) to appoint a committee to study all aspects of the rural credit. [48]

At the instance of Government of India, RBI[49] appointed Committee to Review Arrangements for institutional credit for Agriculture and Rural Development (CRAFICARD) in 1979. The Committee sought to review, the structure and operations of ARDC in the context of an increasing need for term loans for agriculture and the feasibility of integrating short-term and medium-term credit structure with long-term credit structure at national, state, district and village levels.

The Committee felt that the device of a statutory body for policy-making for agricultural credit has not worked in the manner envisaged by the All-India Rural Credit Review Committee. In view of the situation they felt the need for "An Organizational Device" for providing undivided attention, forceful direction and pointed focus to credit problems arising out of Integrated Rural Development". The Committee, therefore, came to the following conclusions "We, therefore, are convinced that the balance of advantage in the present context lies in setting up of a national level bank with close links with the R.B.I. However, we envisage the role of the R.B.I. as one of spawning, fostering and nuturing the new bank, somewhat in the same manner as the A.R.D.C. we would cast a special responsibility on the R.B.I. to develop the new institution which in

[48] National Bank Training Centre, "National Bank for Agriculture & Rural Development (National Bank, Genesis & Functions), Lucknow, 1996 p. 34
[49] B.N. Choubey, op.cit., pp. 306-307

our view is a logical step in the organizational evolution of the R.B.I. itself".

The concept of national bank given by CRAFICARD, considered for a national level organisation and came to the decision that the national level bank should be known as National Bank for Agriculture and Rural Development (N.A.B.A.R.D.)[50] N.A.B.A.R.D. has been developed for providing all kinds of production and investment credit to agriculture, small-scale industries, artisans, Khadi and Village Industries, handicrafts and other allied economic activities in an integrated manner with undivided attention, pointed focus and forceful direction.[51]

NABARD took over the function of the erstwhile Agricultural Credit Department (ACD and Rural Planning and Credit Cell (RPCC) of RBI and Agricultural Refinance and Development Cooperation (ARDC). The Bank was established with a paid up capital of Rs.100 crores equally subscribed by GOI and R.B.I., which was enhanced to Rs.500 crore (01.01.1996). It is now enhanced to Rs.2000 crore.[52]

OBJECTIVES OF NABARD

The main objectives that guide the functioning of National Bank are:

(i) to provide refinance to eligible institutions, viz SLDBs, SCBs, scheduled CBs and RRBs for supporting production and investment credit for developmental activities in rural areas.

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[50] www.Nabard.,org. Genesis of Nabard, 2003, p. 1
[51] B.N. Choubey, Agricultural Banking in India, "The National Bank for Agriculture", National Publishing House, New Delhi, 1994. P.P.306-307.
[52] www.Nabard.org.Ibid. p. 1

(ii) To improve the absorptive capacity of the credit delivery system through institution building by monitoring, formulation of rehabilitation schemes restructuring of credit institutions, training of personnel etc.

(iii) To co-ordinate the activities of different agencies engaged in developmental work at the field level and to keep liaison with GOI, state governments and RBI and other national level institutions connected with policy formulation and

(iv) To undertake monitoring and evaluation of projects refinanced by it.

The major objectives that guide refinance support for different activities through the eligible institutions by National Bank are:

(i) to support national policies for increasing agricultural production and rural employment through efficient use of national resource;

(ii) reduction of regional imbalances;

(iii) equitable distribution of growth ensuring credit support to the weaker section of the society through special programmes like the Integrated Rural Development Programme (IRDP);

(iv) increasing the credit absorptive capacity of the credit delivery system by improving the health of the agencies involved in credit dispensation; and

(v) improving quality of lending through proper control of technical and financial parameters and propagation of the repayment ethics.

FUNCTIONS OF NABARD

The main functions of the Bank under the NABARD Act,1981 are as under

A. Credit Functions

B. Non-Credit Functions

- **(i)** Promotional
- **(ii)** Developmental
- **(iii)** Supervision/Regulatory
- **(iv)** Others.

A. CREDIT FUNCTIONS:

1. Production and marketing credit: The National Bank may provide by way of refinance, loans and advances, repayable on demand or on the expiry of fixed periods not exceeding eighteen months, to State Co-operative Banks, regional rural banks, or to any financial institution or to any class of financial institutions, which are approved by the Reserve Bank .The purposes for which the refinance may be provided are:

(i) agricultural operations or the marketing of crops,

(ii) the marketing and distribution of inputs necessary for agriculture and rural development,

(iii) any other activity for the promotion of or in the field of agriculture or rural development,

(iv) bonafide commercial or trade transactions,

(v) the production or marketing activities of artisans or of small-scale industries, industries in the tiny and decentralised sector, village and cottage industries or of those engaged in the field of handicrafts and other rural crafts.

The National Bank may make loans and advances against the security of stocks, funds and securities other than immovable property in which a trustee is authorised to invest trust money by any law for the time being in force. Such advances can also be made against security of promissory notes supported by documents of title to goods, such documents having been transferred, assigned or pledged to the borrowing institutions as security for a loan or advance made for any of the purposes specified earlier.

2. Rescheduling of loans of artisans, small scale industries, etc: Where the National Bank is satisfied that owing to unforeseen circumstances the rescheduling of any loans and advances made to artisans, small-scale industries, industries in the tiny and decentralised sector, by any State co-operative bank, regional rural bank or any such financial institution falling under such class of financial institutions as may be approved by the Reserve bank has become necessary, it may provide to such bank or institution such financial assistance as it may deem fit by way of loan, and advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years against such securities as may be specified by the National Bank.

3. Investment Credit Medium-Term: The National Bank shall provide such financial assistance as it may consider necessary by way of grant of loan to State co-operative banks, regional rural banks, loans and advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years against such securities as may be specified, in this behalf, by the National Bank and such loans or advances may be provided for agriculture, rural development or such other purposes as the National Bank may, from time to time, determine.

4. Purchase and Sale of Shares: The National Bank may contribute to the share capital of, or purchase and sell shares of, or invest in the securities of, any institution concerned with agriculture and rural development, which the Central Government may notify in consultation with the Reserve Bank.

5. Loans to State Government for Share Capital Contribution: The National Bank may grant loans and advances to State Governments, repayable on the expiry of fixed periods not exceeding twenty years from the date of grant of such loans and advances, from the National Rural Credit (Long term Operations) Fund established under Section 42 for enabling them to subscribe directly or indirectly to the share capital of a co-operative credit society.

6. Security for Credit: No accommodation shall be granted by the National Bank under clause (a) or clause (c) of sub-section (1) of Section 25 or Section 30 or Section 32 to an institution other than a schedule bank unless it is fully and unconditionally guaranteed by the Government as to the repayment of principal and payment of interest.

7. Issue of guarantee: The National Bank may guarantee with the prior approval of the Central Government and on such terms and conditions as may be agreed upon deferred payment in connection with the purchase of capital goods.[53]

8. Conversion Loan for Production Credit : NABARD may also provide such financial services to SCBs, and other approved financial institutions for a period upto seven years for the following purposes :

(i) to pay any dues to the NABARD for credit extended for financing agriculture or agricultural operations;

[53] Dr. B.S. Mathur, Cooperation in India, op.cit., p. 464

(ii) to grant to CCB or PACSs, loans or advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years, from the date of grant of such loans or advances by way of reimbursement of loans and advances made by such co-operative banks or societies for agriculture or agricultural operations or for reimbursement of such loans or advances which have been converted into loans or advances repayable on expiry of fixed periods not being less than eighteen months and not exceeding seven years.

9. Investment Credit .Long-Term : NABARD may provide such long-term financial assistance as it may consider necessary for promoting agriculture and rural development by way of :

(a) providing of loans and advances, to CLDBs or an SCBs, or a scheduled bank or any other eligible institution repayable within a period not exceeding twenty-five years,

(b) the purchasing of or selling of, or subscribing to the bonds or debentures of any eligible institution repayable within twenty five years,

(c) providing of loans and advances to SCBs and scheduled banks repayable on the expiry of fixed periods not exceeding twenty five years for the purpose of enabling any such institution to make loans or advances to small-scale industries including artisans, village and cottage industries, handicrafts and such other industries in the tiny and decentralised sectors, including the rescheduling of such loans and advances;

(d) providing of loans and advances to CLDBs by way of refinance repayable on demand or on the expiry of fixed periods not exceeding eighteen months, which may be considered as required in connection with any loans or advance made to the CLDB.

10. Direct Loans: NABARD may provide loans and advances otherwise by way of refinance of any institution as may be approved by the Central Government on such terms and conditions (including security) and repayable within such period not exceeding twenty-five years.[54] National Bank provides direct credit to state governments & Non Governmental Organizations,

(i) To state governments for loans under the RIDF for completion of incomplete and new rural infrastructure projects & for cooperative credit institutions.

(ii) To Non-Governmental Organisations for micro finance activities and promotional projects.

11. Amount and Securities to be held in Trust: Any sum of money which a borrowing institution has received in repayment or realisation of loans and advances refinanced wholly or partly by NABARD shall, to the extent of the accommodation granted and remaining outstanding, be deemed to have been received by the borrowing institution in trust for NABARD, and shall accordingly be paid by such institution to NABARD, as per the repayment schedule fixed by NABARD. Further, where an accommodation has been granted to a borrowing institution, all securities held, or which may be held, by such borrowing institution, an account of any transaction in respect of which such accommodation has been granted by NABARD, shall be held by such institution in trust for NABARD.

12. Power to Call for Repayment before Agreed Period: NABARD may require any borrowing institution to which it has granted any loan or advance to discharge forthwith in full its liabilities to NABARD.

(i) If it appears to the Board total false or misleading information in any material particular was given in the application for the loan or advance, or

[54] I.C. Dhingra, Rural Banking In India, "Reserve Bank of India, Nabard and other Institutions", Sultan Chand & Sons, New Delhi, 1993, p. 306

(ii) If there is a reasonable apprehension that the borrowing institution is unable to pay its debts, or.

(iii) If the borrowing institution has failed to comply with any of the terms of its contract with NABARD in the matter of loan or advance, or

(iv) If for any reason, it is necessary to protect the interests of the NABARD.

13. Validity of Loans or Advance not to be Questioned: In the absence of any contrary arrangement contained in any other law for the time being in force, the validity of any loan or advance granted by NABARD, under the provisions of NABARD Act, 1981, shall not be called in question merely on the ground of non compliance with the requirements of such other law as aforesaid or of any resolution, contract memorandum, articles of association or other instrument.

14. Power to Impose Conditions for Accommodations: NABARD is authorised to impose such conditions as it may think necessary or expedient for protecting its interests, in entering into any transaction related to its functions.

15. NABARD cannot Grant Loans Against its Bonds or Debentures: National Bank is not allowed to grant any loan or advance on the security of its own bonds or debentures to any of the borrower agency in any form.

16. National Bank to have Access to Records: The National Bank has the right to have free access to all records of any institution, which avails any type of credit facility of NABARD. The Bank also can have free access to all such records of any such person who seeks to avail any credit facilities from such institution. In such cases perusal whereof may appear to NABARD to be necessary in connection with the providing of finance or other assistance to such institution or the refinancing of any loan or advance made to such person by the borrowing institution.

B. NON-CREDIT FUNCTIONS

I. Promotional Functions

a. Planning and policy framing on maters pertaining to rural development.

b. Spelling out following five principles of development through credit and disseminating them as widely as possible

1. The terms and conditions of credit or techno-economic parameters must be fully respected.
2. The credit must be used in accordance with most suitable methods of science and technology.
3. Work must be done with skill so as to increase productivity and income.
4. A part of the additional income created by credit must be saved.
5. Loan instalments must be repaid in time and regularly so as to recycle credit.

c. Fixing techno-economic parameters for agriculture and allied activities and non-farm sector.

d. Reviewing the ethic and habit of repayment, field studies seminars etc.

e. Borrowers education-Organisation of Vikas Volunter Vahini through borrowers involvement.

II. Developmental Functions

The responsibility for fostering the growth of credit institutions especially cooperative credit institutions and RRBs has been entrusted to NABARD.

(a) Institutional Development

(i) Building up of sound cooperative credit structure-Removal of structural weaknesses, operational constraints etc.

(ii) Improvement in operational efficiency-Policies of cooperative banks and RRBs-crop loans/other term lending.

(iii) Professionalisation of management.

(iv) Setting up of working groups-Standing committees etc. to go into problems of organization and financial strengthening.

(v) Development of handloom sector/other non-farm sector.

(b) Monitoring and Evaluation

(i) Monitoring and reviewing the performance of cooperative banks and RRBs.

(ii) Overseeing implementation of various developmental programmes independently and also in close coordination with Govt./RBI/Lead Banks.

(iii) Monitoring implementation of various projects.

(iv) Conducting evaluation studies.

(c) Training

(i) Financing courses at College of Agricultural Banking Pune.

(ii) Financing courses at 15 Junior level Training centres of Land Development Banks.

(iii) Financing Bankers Institute of Rural Development a national level institution at Lucknow and regional level training centres at Bolpur (Shantiniketan) and Manglore, setup for training of functionaries of commercial banks/RRBs/Cooperative banks and Government.

(iv) Monitoring of National Bank Staff College at Lucknow setup for its own Officers.

(v) Monitoring National Bank Training Centre at Lucknow setup for group B&C staff.

(d) Research and Consultancy

Maintain Research and Development Fund for funding research in agriculture/rural development, providing assistance to RRBs/cooperative banks for setting up technical, monitoring and evaluation cells, assistance to voluntary organizations involved in development of non-farm sector activities etc. Provide consultancy services in the field of agriculture and rural development & other related matters in or outside India.

(e) Coordination

Coordinate operations of rural credit institutions. This responsibility was taken over from RBI. Bank maintains close coordination with

(i) Government of India/State Governments.

(ii) Planning Commission.

(iii) Commercial Banks, RRBs/cooperative banks, at national, state, district and block levels. National Bank has posted its officers as District Development Managers in most of the districts to coordinate the activities of banks in the areas at grass root level credit planning and monitoring.

(iv) All India/State Level institutions engaged in development of SSI industries in tiny and decentralized sector, artisans etc.

(f) Advisory

Giving advice and guidance to State Governments Federations of cooperative banks, other cooperative organizations etc. in regard to cooperative movement, agricultural credit, agricultural and rural development etc.

(III) Statutory and Regulatory Functions

(i) Inspections

Section 35 (6) of Banking Regulation Act 1949 empowers National Bank to undertake inspection of RRBs/Cooperative Banks (other than Primary Urban Cooperative Banks). These powers to inspect are without prejudice to powers of RBI in this behalf. Further, Section 35 of National Bank Act also empowers NB to have free access to records of institutions availing financial assistance from it.[55]

(a) Onsite inspection of cooperative banks (Coops.) & Regional Rural Banks (RRBs).

(b) Off site surveillance of the health of Coops and RRBs.[56]

(ii) Branch Opening

RRBs/State cooperative banks have to submit applications for branch opening to RBI, through National Bank.

(iii) Returns

RRBs/cooperative banks (other than primary cooperative banks) submitting returns to RBI under various sections of Banking Regulation Act should furnish copies of respective returns

[55] National Bank Training Centre, Ibid. pp. 40-41
[56] www.Nabard.org., Supervisory role of Nabard, p. 2

to National Bank. National Bank is also empowered to call information/statements from cooperative banks/RRBs.

(iv) Penal Provisions

National Bank is also empowered (Section 56 of National Bank Act) to impose penalties for non-submission of information statements etc. to it.

(IV) Others Functions

(i) The National Bank can act as an agent for the Central Government the reserve Bank or State Governments in respect of loans and advances granted or to be granted, bonds, and debentures subscribed/purchased etc. (Section 38 (ii) ibid)

(ii) It can also on being appointed by RBI, act as its agent at all places or at any place specified by it (Section 45 of RBI Act.)

Major Activities of National Bank

Major activities can be broadly classified into three parts viz:-

1. Operations

A. Sanctions

B. Operations related functions

1. Inspection
2. Monitoring
3. Technical Services

2. Planning

1. Short and Long term credit planning at macro & micro level

2. Evolving corporate policy
3. Programming
4. Institution development
5. Research
6. Advisory & other related functions

3. Services

1. Administration
2. Accounts
3. Personnel management
4. Human resource development
5. Training [57]

NABARD operates through its 28 regional offices and one sub-office, located in the capitals of all the states/union territories. It has 320 district offices in the country and one special cell at Srinagar, it has also 5 training establishments.[58] Headquarter of Nabard is located at Mumbai.

Nexus of NABARD with Reserve Bank of India, Commercial Banks, Cooperative Banks, Regional Rural Banks, Government & other Institutions.

1. National Bank (NB) and Reserve Bank of India (RBI)

National Bank was carved out of RBI and has, therefore, organic links with Reserve Bank. Fifty percent of share capital of NB is held by RBI, and three directors on the Board of Management of NB are nominated by k 3I Act, Central Government appointed a Deputy Governor of RBI as Chairman of National Bank. Functional relationship between RBI and National Bank is briefly given below:

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[57] National Bank Training Centre, Ibid. p. 42
[58] www.Nabard.org., Genesis of Nabard, 2003, p. 2

(i) Funds Support from RBI

a. National Bank gets a general line of credit sanctioned by RBI every year out of which refinance facilities are extended by National Bank to cooperative banks and RRBs to meet short-term credit requirements of agriculture, rural industries, artisans and trade.

b. The two funds maintained by RBI were transferred at the time of formation of National Bank. These funds are now known as NRC (LTO) funds and NRC (S) Fund. These funds are the main sources for National Bank to meet its investment credit etc., functions. RBI has been making substantial contribution to these two funds every year out of its profit. RBI did not contribute to these funds during 1992-93.

c. RBI under Sec. 18 of its Act can provide interim/temporary accommodation to National Bank to meet unforeseen demands.

d. RBI approves market borrowings of National Bank, the quantum as well as terms of borrowing.

(ii) Inspection of Banks

National Bank conducts inspection of cooperative banks and RRBs and copies of inspection reports are forwarded to RBI. National Banks inspections cover financial appraisal violation of banking laws, violation of directives of RBI and manner in which the affairs of the banks inspected are conducted. National Bank recommends grant/continuance of license to cooperative banks.

(iii) Credit Planning

Lead bank scheme of RBI has been in implementation since 1969. Planning for priority sector credit under lead bank scheme, which was closely supervised by RBI, has been handed over to NB, wherever DDM offices have been opened by NB. Presently DDMs help and guide lead banks in preparation of district credit plans under services area approach and also monitor implementation of credit plans. NB furnishes monitoring reports to RBI.[59]

National Bank and Cooperative Banks

National Bank has undertaken the role of monitoring and developing the cooperative credit system. It is concerned with the financial health of the concerned with the financial health of short-term and long-term cooperative credit structures, and continuously monitors the same. The National Bank maintains close rapport with the State Governments /RCS and endeavours constantly to remove structural weaknesses, improves operational policies, professionalizes management and rehabilitates weak institutions. Specific linkages of National Bank with cooperatives are :-

(i) National Bank sanctions credit limits to cooperative banks for meeting their short-term credit (crop loan) requirements and working capital-needs.

(ii) National Bank contributes to development of debentures floated by the long-term cooperative credit structure (LDBs) and organizes support for ordinary debenture programme of LDBs.

[59] National Bank Training Centre, op. cit. p. 54

(iii) National Bank conducts statutory inspection of SCBs and CCBs and voluntary inspection of LDBs.

(iv) National Bank continuously monitors the health of cooperative banks identifies weak banks provides guidelines for strengthening them and monitors the implementation of such strengthening programmes.

(v) National Bank provides training to personnel of cooperative institutions. NABARD sponsored, BIRD provides training to senior executives, Branch Managers and Trainers of cooperative banks.

National Bank and Regional Rural Banks (RRBs)

As in the case of cooperative banks, the responsibility for overall control of RRBs vests with the National Bank. The relationship between the National Bank and the RRBs may be identified as under:-

(i) National Bank issues policy guidelines to all RRBs and oversees and monitors their over all performance.

(ii) National Bank nominates its one Officer as Director of the Board of each RRB.

(iii) National Bank is Convener of State Level Coordination Committee of RRBs.

(iv) National Bank inspects RRBs and takes follow-up action on its findings.

(v) It takes up monitoring studies of RRBs and suggests remedial measures.

(vi) It conducts enquiries on complaints against RRBs, their staff etc.

(vii) It provides refinance support against ST, MT/Schematic lending of RRBs under farm and non-farm sector activities.

(viii) It provides training to the senior executives and other officers of RRBs and has set up Bankers

Institute of Rural Development at Lucknow and regional centres at Bolpur and Mangalore for this purpose.

National Bank and Government.

(a) Central Government

Central Government holds 50% share capital of National Bank. It appoints Chairman, Managing Director and other members of the Board. The National Bank keeps close links with the ministries of Finance, Agriculture and Rural Development, whose secretaries are ex-officio directors of National Bank. In regard to NFC activities National Bank has links with the Development Commissioners of SSI/Handloom and Handicrafts.

National Bank also advises Government of India on matters relating to policy planning and implementation of various programmes of agriculture and rural development and undertakes to negotiate external assistance with international funding agencies on behalf of Government of India.

(b) Planning Commission

National Bank has close liaison with the Planning Commission so far as it relates to macro and micro level credit planning. Its involvement normally takes the shape of preparation of status paper, if any, required by Planning Commission, inter-ministerial discussions/consultation. Planning Commission has involved National Bank in preparation and finalisations of plan documents, working groups especially on cooperative and rural credit, State's annual plan discussions etc. Regional in charges of National Bank have been nominated as members of regional planning teams under the concept of agro-climatic zone planning, initiated by the Planning Commission.

(c) State Government and Other Institutions

Apart from tendering expert advice on matters relating to rural credit etc. National Bank has associated in various State Government forums pertaining to agriculture and rural development so as to ensure a common coordinated approach in all matters having a bearing on rural credit and development. It holds discussions at the highest level with State Government at periodical intervals. Since supervision and control of cooperative banks vest with the State Government, it is in constant touch with the Registrar, Cooperative Societies to ensure smooth working of cooperative credit structure in the state. National Bank officers are also nominated as members of State level coordination committees on IRDP, 20 point Economic Programme etc. DDMs are also nominated as Members of DRDA governing body, district-planning board/council at the district level. National Bank has also close links with Small Industries Development Bank of India, Rural Electrification Corporation, National Cooperative Development Corporation and Agricultural Finance Corporation etc. [60]

It can be concluded from the above discussion that NABARD was the necessity for the development of rural economy. Whether it has succeeded in achieving its target has been discussed in the next chapter.

[60] "National Bank-Linkages with Reserve Bank of India, Government and other Institutions", National Bank for Agriculture and Rural development, pp. 54,56,58

Chapter 3

Role of Nabard in Financing Farm & Non-Farm Sector

Chapter 3

Role of Nabard in Financing Farm & Non-Farm Sector

Rural Sector in India is composed of two main sub-sectors, viz., the Farm Sector and the Non-Farm Sector.

The farm sector, especially cultivation, dominates the economic scene in the rural set-up. And, since the development of rural masses forms the predominant part of the Indian economy, the situation in the agricultural sector determines the pace of growth in the economy. The farm sector can be divided into two parts: (a) Agriculture, and (b) Allied Activities.

Agriculture, can be defined to include the whole process of cultivation of land. In India the vital role of agriculture arises out of the position the agrarian sector occupies in the overall economy of the country. Agriculture is the largest sector of the economic activity and has a crucial role to play in the country's economic development by providing food and raw materials, employment to a very large proportion of population, capital for its own development and surpluses for national economy. Agricultural sector contributes the largest share to the national income of India.

This sector is also the primary source of savings. The pace of development is largely conditioned by the rate of capital formation in the economy. Since Independence, large investment, both public and private, has been made in agriculture to accelerate the economic growth.

As agriculture occupies a central place in the national economy, hence its performance sets the pace of growth in the economy as a whole. A strong foundation of agriculture is a necessary condition for a rapid economic and social development. Agriculture can contribute substantially to the improvement of the rural as well as the overall economy of the country and has the potential of becoming a leading sector in development. A more dynamic role is, therefore, envisaged for this sector in future[1].

India is essentially a country of small holdings. The average size of holdings in India is continuously decreasing due to rapid and high population growth. The continuous division and fragmentation of holdings has increased the number of holdings, to smaller size. According to agriculture census 1990-91, the total number of operational holdings in the country had increased from 972 million in 1985-86 to 1066 million in 1990-91. Operated area, on the other hand, had ri ;en only marginally, i.e., by about 0.6%. Rise in number of holdings without corresponding increase in area clearly showed pressure of population on land with average size of holding declining from 1.69 hectare in 1985-86 to 1.55 hectare in 1990-91. 59% of total operational holdings in 1990-91 were of size less than 1 hectare (i.e. marginal holdings), 32.2% of size between 1-4 hectares (i.e. small holdings), 7.2% of size between 4-10 hectares (i.e., medium holdings) and only 1.6% of size more than 10 hectares (i.e. large holdings).[2]

As small farmers constitute a sizeable portion of the farming community in India, they are, for obvious reasons, a very weak link

[1] I.C. Dhingra, Rural Banking in India, "Rural Economy of India", Sultan Chand & Sons, New Delhi, 1993, pp. 15-16

[2] Pratiyogita Darpan, Op.cit. 55

in the farm production programmes. Unless production on small farms goes up, these and their owners will always remain a drag on national resources. There is, therefore, an imperative need to pay more and immediate attention to the problems of small farmers and provide solution to their problems.

NABARD defines a small farmer as one who derives a pre-development net income up to Rs. 2,000 at 1972 prices. The limit is up-dated periodically with reference to the movement of the consumer price index for agricultural labourers and at present a norm of Rs. 4,600 per family is applied. The income norm is converted into acreage norms for different agro-climatic regions for classification of farmers as small farmers.

Small Farmers Development Association (SFDA) defined small farmer as one having an unirrigated land holding of 2 hectare or 1 hectare of class I irrigated land. A marginal farmer was one with a land holding of less than 2.5 acres of unirrigated land or 1.35 acres of class-I irrigated land.

Integrated Rural Development Programme (IRDP) includes small farmer within the group of rural poor defined as those households with annual income up to Rs. 6,400. For landowning households, the limit has been fixed 1 hectare of irrigated land or 2 hectares of unirrigated land.

A comprehensive rural development programme, aiming at the socio-economic upliftment of the rural areas, cannot, in the nature of things, be based entirely on crop production alone, but should embrace a large complex of activities relating to improvement of livestock, etc. These activities cover such activities as animal husbandry (dairy farming sheep & pig rearing, poultry , fisheries and forestry etc.

The role of the allied activities in rural development is to save the problem of disguised employment by relieving a large size of population from land, which creates unnecessary pressure on land. It provides whole time employment as in the off-season the farmers and landless labourers can take up allied activities as supplementary source of their income. As these activities do not require much training & skill therefore, they are suitable for illiterate & unskilled rural population. The remunerative prices provided, raise their incomes & standard of living. These activities help in the utilization of local resources & removing regional imbalances. Products of these activities provide raw materials & semi-finished products to industries for the local and exports markets and maintain the ecological balance in the economy.

In the non-farm sector, besides marketing of agricultural produce and trading in agricultural and non-agricultural goods, two major groupings of economic activities are: (A) Artisans, and (B) Rural industry.

Rural artisans are found in traditional activities such as carpentry, goldsmithy, weaving and masonry as well as in activities adjunct to modern work, and so on. Most of them produce goods for household use. In a number of cases, these goods are of high aesthetic quality. As new skills are required, they may also perform certain functions approximating to the servicing and maintenance of durable consumer goods. Encouragement to this class of producers results in important benefits to the economy in the form of additional output and employment.

Rural industries embrace all industries which are run by rural people in or near their homes as a spare time or wholetime occupation either as a caste industry or a traditional profession. These are based primarily on the utilization of locally available raw materials, skill, and small amounts of capital. The various rural industries can be broadly classified into three groups, viz., (a) cottage industries; (b)agro-based industries, and (c) small industries.[3]

Non-Farm Sector plays a vital role in the Indian economic development basically for two reasons.

(i) The prospects for agricultural growth based on area-expansion are limited; and

(ii) The capacity of the agricultural sector to absorb labour is also limited. Thus agricultural development alone cannot provide a solution to eradicate poverty and unemployment. Moreover, the structural Adjustment Programme and economic reforms underway since 1991 provide large scope for the development of non-farm sector.

There are several factors responsible for the growth of non-farm sector:

(i) agricultural growth induces the growth of the non-farm sector.

(ii) the growth of the non-farm sector is also distress-induced due to rural-unemployment;

(iii) remittances from abroad have also contributed to the growth of non-farm sector; and

(iv) ownership of land has often released the educated young persons for undertaking NFS activity.

[3] I.C. Dhingra, Op.cit. pp. 29-30

The potential for employment generation of the non-farm sector vis-a-vis the farm sector will ultimately depend upon the nature of the specific activities that are undertaken in the respective sectors. For instance, raising of field crops under irrigated conditions may generate more employment opportunities unit of investment in irrigation than that in the handloom industry. This makes it necessary to finance both the sectors keeping in mind the income earning and employment generating potential of the specific activities. [4]

The eligible institutions, to obtain refinance facilities by Nabard are State Cooperative Agriculture & Rural Development Banks (SCARDBs), Regional Rural Banks (RRBs), State Cooperative Banks (SCBs), Commercial Banks (CBs), State Agricultural and Rural Development Banks (ARDBs), Primary Urban Cooperative Banks & State Government.[5]

These institutions cover different purposes of refinance by Nabard for both investment & production credit. The major objectives which guide refinance support for various activities through the above various eligible institutions by Nabard are for national policies for increasing agricultural production and rural employment through efficient use of national resources; reduction of regional imbalances, ensuring credit support to the weaker sections of the society through special programmes like the integrated rural development programme (IRDP) & improving quality of lending through proper control of technical and financial parameters and propagation of the repayment ethics. The credit facilities cover a wide range of activities both in farm & non-farm

[4] NABARD, Annual Report, 1998-99, page 141
[5] www.Nabard.Org., Institutions Eligible for Refinance, 2003

sector. The credit facilities, which are provided by National Bank under the NABARD Act 1981, are given in Appendix. I [6]

TERMS AND CONDITIONS FOR LENDING REFINANCE

The National Bank has prescribed detailed terms and conditions on the basis of which these credit facilities are provided. The terms and conditions relating to short-term & medium-term loans on non-schematic basis depend on both, the type of facility and the institution to which the refinance is given. The important terms and conditions, which are the basis of sanctions of Nabard's refinance facility on schematic basis, are given below:

1 Unit Cost

The real average unit cost for each type of investment is prescribed keeping in view their technical parameters. However, the unit cost in individual cases is determined on the basis of technical plans, invoices, quotations etc.

2 Amount of Refinance

The National Bank has adopted the policy of involving the financing banks/state governments in project lending. For this purpose, the financing banks/state governments are required to make certain stipulated level of the project. The amount of refinance sanctioned by the NABARD ranges between 50 percent and 95 percent of the bank loans. For priority sectors, like, minor irrigation, land development, Integrated Rural Development Programme (IRDP) and other programmes specially for the benefit of weaker sections, the higher amount of refinance is available. The

[6] National Bank Trading Centre, Ibid. p. 96

NABARD has also fixed the higher rate of refinance in the cases where advances are made by the State Land Development Banks (SLDBs). This arrangement is also for the lendings made by all the banks in backward or underdeveloped areas in North-Eastern and Eastern Regions. (See Appendix II)

3 Security of Refinance

The refinance should be guaranteed by the State Government, or the financing bank should furnish other security to the satisfaction of the National Bank. There is a provision of waivement of the security or Government guarantee for any eligible institution or any class of eligible institution on the merits of each case. Generally, the National Bank waives security in the cases of Commercial Banks (CBs) including Regional Rural Banks (RRBs) because of the operational problems in creating sub-mortgage or hypothecation of security. In the case of, State Cooperative Banks (SCBs), the refinance should be guaranteed by the State Government. In the case of Land Development Banks, the special development debentures should be guaranteed by the concerned state government. Under the provisions of the NABARD Act, 1981, this is also provided that all the securities obtained by the borrowing institution from the ultimate borrowers should be held in trust on behalf of the National Bank under the provision of section 29 (2).

The security from ultimate beneficiary is to be ensured by banks as per guidelines issued by RBI/National Bank (NB) from time to time.

(i) Where movable assets are financed for loans upto Rs. 10,000/- simple Hypothecation of the asset financed & for loans above Rs. 10,000/- Hypothecation of the asset and collateral security at the discretion of the bank.

(ii) Where immovable assets are financed for loans above Rs. 2,000/- Mortgage of the land on which the immovable asset is situated for refinance, National Bank (NB) does not insist upon the banks other than State Land Development Banks (SLDBs) for Government guarantee.

4. Rate of Interest.

The rate of interest is to be charged from ultimate beneficiaries by banks and on refinance by NB is determined from time to time by RBI/NB.

An automatic refinance facility has been extended in many schemes where by banks have not to submit proposals for prior approval of National Bank. The nature of scheme and its % of bank loan are as follows:

	Nature of scheme	**Percentage of Bank Loan**
(i)	IRDP (ISB), SC/ST action plan and biogas	
	a. Commercial Banks	070
	b. SCBs/RRBs	090
	c. SLDBs	095
(ii)	Small Sector Industries (SSI) Units/Agro Industries	075
(iii)	All other NFS schemes	100

5. Evaluation Fee

Evaluation fee of 0.5 per cent (in case of LDBs-1 per cent) of the cost of investment is allowed to be charged by banks for meeting appraisal and processing charges of loan application.

6. Period of Loans

National Bank can provide loans upto 25 years. Depending upon the economics of each investment maximum period of loan repayment is prescribed by National Bank. So far repayment period has been fixed only upto 15 years. Suitable grace/gestation period is also allowed depending upon the cash flow of each investment. In case of minor irrigation and land development purposes grace period upto a maximum of 23 months is allowed. For purposes such as horticulture and forestry longer grace period can be considered. Interest can also be deferred during gestation period.

7. Repayment of Loans.

In the cases of SCBs and CBs including RRBs the repayment from these banks to the NABARD is drawn up at the time of each drawals of refinance if the refinance from above mentioned banks is more or less collection from ultimate borrowers as per schedule.

8. Eligibility Criteria

National Bank refinance is linked to the recovery performance of the banks. Presently, these norms are these units having recovery of 60% and above demand are unrestricted Units having recovery below 60% of demand (50% in case of banks/branch in North Eastern States) are limited to the extent of recoveries made or the average of an amount recovered/lent in the preceding 3 years which ever is greater. For non-farm activities eligibility criteria are applicable for refinance in case of installation of/repairs to bio-gas plants. For other non-farm activities criteria are most applicable.

9. Commitment charges

The drawal of the amount of refinance sanctioned by the NABARD for the various schemes, is generally phased over a few years. In such cases where the financing banks found themselves unable to draw the amount of refinance is full as per the phasing approved, according to the sanctioned/emphased scheme, by the end of any year the financing banks should pay to NABARD, in respect of each such year, commitment charges at the rate of 1/3rd of 1 per cent per annum on the shortfall of refinance availed by the banks as at the end of each year.[7]

10. Location of the Banks

Commercial banks and RRBs extend refinance assistance in respect of the finance provided by them to production units located in rural areas, which cover all villages irrespective of their population and towns with population not exceeding 10000. Refinance assistance to SCBs and SLDBs is available irrespective of the location of units financed by them.

11. Government Guarantee

SLDBs are provided refinance after obtaining Government guarantee. In respect of CBs, SCBs and RRBs Government guarantee is not insisted upon.

[7] National Bank Training Centre, Ibid. pp. 108,110, 111

12. Types of Units Eligible for Refinance & their repayment Period

Assistant is availal le for setting-up new units as well as modernization of units that are in existence atleast for 5 years & the repayment period ranges between 3 to 10 years.[8]

NABARD provides refinance for the following activities:-

A. FARM ACTIVITIES

1. Short-Term

a) Seasonal agricultural operations and marketing of crops.

b) Stocking and distribution of chemical fertilizers

c) Financing co-operative sugar factories

2. Medium/Long-term

a) Approved agricultural purposes.

b) Conversion loans

c) Purchase of shares in the cooperative sugar factories, and other processing societies.

d) Minor irrigation investments such as construction of dugwells, dug-cum-bore-wells, filter points, shallow/medium/deep, tubewells, lift irrigation units, agricultural pumpsets, sprinkler irrigations, lining of water courses, etc.

e) Farm mechanization, including tractors, power tillers, threshers, etc.

f) Land development, soil conservation, shaping of land for irrigated or dry land farming.

[8] National Bank Training Centre, Ibid. p. 112

g) Plantation and horticulture crops such as coffee, tea, rubber, cashew, coconut, grapes, spices, etc.

h) Animal husbandry programmes covering dairy, poultry, sheep, goat, pig-gery, etc.

i) Inland and Marine fisheries.

j) Storage godowns and market yards.

k) Forestry, including growing specified varieties of timber for paper, pulp and fibre.

l) Activities under IRDP.

m) Work animals, animal driven carts etc.

n) Other purposes like dryland farming, command area development projects, exports-oriented agricultural projects, etc.

B. NON-FARM ACTIVITIES

1. Short-term/Working Capital

a) Production and marketing activities of powerloom/handloom weavers' societies, primary coir/cooperatives, other cottage and small scale industrial cooperatives and village artisans through primary societies.

b) Procurement and marketing activities of apex/regional weaver' societies and central coir marketing societies.

c) Silk reering and twisting activity of cooperatives

d) Collection and marketing of minor forest produce.

2. Medium/Long term

a) Purchase of shares by powerloom weaver's societies and handloom weavers in consumer type of cooperative spinning mills.

b) Handlooms-acquisition, modernization, etc. of looms, construction of workshed, acquisition of shares in consumer type cooperative spinning mills by weavers, opening/renovation of handloom emporia, etc.

c) Acquisition of powerlooms.

d) Coir-Establishment of coir defibering units, setting up of showrooms/sales depots in hired premises, etc.

e) Sericulture-Including irrigation, facilities for mulberry cultivation, new planting/replanting, acquisition of rearing equipments, setting up of drainage units by individuals etc.

f) Cottage and Village Industries-Activities of industrial cooperatives engaged in the production and marketing activities of 22 broad groups of cottage and small-scale industries, industrial activities of rural artisan members of primary agricultural credit societies (PACS), large-sized adivasi multi-purpose societies (LAMPS) and farmers' service societies (FSS) for purchase of equipment and tools, etc.

g) Tiny/Cottage and Village Industries-Package of credit measures involving automatic refinance to CBs and RRBs comprising General Refinance Scheme, and infrastructual promotional support schemes. Refinance to Registered Societies for investment in plant, machinery and tools.

h) Automatic refinance facility to SCBs and SLDBs for financing tiny, cottage and village industries.

i) Diversified non-farm purpose failing under the Industries Services and Business (ISB) component of IRDP and Scheduled Caste (SC)/Scheduled Tribe (ST) Action Plan outside IRDP.

j) Bio-gas plant-installation of different types of bio-gas plants.

k) Purchase of dual fuel engine and installation of bio-gas plants of the respective size.

l) Other non-conventional energy sources such as wind mills, etc.

m) Term loan assistance to meet the margin money requirements of cottage, tiny and village industrial units.[9]

The total ground level credit for agriculture and allied activities disbursed by various credit agencies, viz; cooperative banks, Regional Rural Banks (RRBs) and commercial banks estimated to have reached a level of Rs. 70810, crore (Rs. 46,281 crore production credit and Rs. 24, 529 crore medium-term/long term credit) during 2002-03, registering a growth of 14.3 per cent over Rs. 53,504 crore[10] disbursed during 2001-02. During the Ninth Five Year Plan period, the aggregate Ground Level Credit (GLC) flow increased at an annual compound growth rate of 18 per cent. The agency-wise details on flow of GLC for agriculture and allied activities are given in the table 3.1.

Table 3.1

Agency-wise Ground Level Credit disbursements for Agriculture and Allied Activities

(Rs. Crore)

Agency/year	1997-98	1998-99	1999-00	2000-01	2001-02 P	2002-03 E
Cooperative Banks	14,085	15,957	18,260	20,718	23,453	24,296
Regional Rural Banks	2,040	2,460	3,172	4,220	4,822	5,467
Commercial Banks	15,831	18,443	24,733	27,807	33,587	41,033
Other Agencies	-	-	103	82	80	14
Total	**31,956**	**36,860**	**46,268**	**52,827**	**61,942**	**70,810**
Growth over previous year (%)	**21**	**15**	**21**	**20**	**25**	**14.3**

P= Provisional, E= Estimated
Source: Annual Report of Nabard 2002-03, p. 153

[9] Dr. B.S. Mathur, Cooperation in India, National Bank for Agriculture and Rural Development Sahitya Bahawan, Agra. 2000, P. 464 to 466
[10] Annual Report 2001-02

The institutional credit requirements for the agricultural sector during the Tenth Five Year Plan period have been projected by the planning commission, GOI at Rs. 7,36,570 crore, which is more than three times the GLC flow of Rs. 2,29,853 crore disbursed during the period of the Ninth Five Year Plan.

Table 3.2

Sub-Sector-wise Ground Level Credit Flow for Agriculture and Allied Activities

(Rs. Crore)

Sr. No.	Sector/Sub-Sector-wise	1997-98	1998-99	1999-00	2000-01	2001-02 P	CGR (%)
I.	Short-Term (Production Credit	20,640	23,903	28,965	33,314	40,387	18.3
II.	Term Loans (MT&LT investment Credit)	11,316	12,957	17,303	19,513	21,555	17.5
1.	Minor Irrigation (MI)	1,584	1,790	2,346	1,821	1,689	1.6
2	Land Development (LD)	173	217	319	290	261	10.8
3	Farm Mechanisation (FM)	3,566	3,936	3,889	4,125	3,570	-
4	Plantation & Horticulture (P&H)	755	767	777	754	670	-2.9
5	Animal Husbandry (AH)	1,763	1,996	2,119	2,190	2,142	5.0
6	Fisheries	338	448	405	319	497	10.1
7.	HI-Tech Agriculture*	1,101	1,339	1,360	2,088	2,257	19.6
8.	Others@	2,036	2,464	6,088	7,926	10,469	50.6
Total (I +II)		**31,956**	**36,860**	**46,268**	**52,827**	**61,942**	**18.0**

P: Provisional CGR : Compound Growth Rate * Only commercial banks @ Others include disbursements under storage & market yards, bullocks, bullock carts, biogas, etc.
Source : Annual Report of Nabard, 2002-03 p. 155

For Agency-wise/Broad Sector-wise Flow of Ground Level Credit (GLC) and NABARD's Refinance for Agriculture and Allied Activities has been shown in Appendix III.

The sub-sector-wise details on ground level credit disbursed for agriculture and allied activities during the Ninth Five Year Plan period shown in the table 3.2 above reveal that while the flow of term loans almost stagnated in the case of some sectors like Minor Irrigation (MI), Farm Mechanisation (FM), Plant and Horticulture (P&H) and Animal Husbandry (AH), there was significant increase in the credit flow for hi-tech agriculture and other activities like storage, market yards, etc.

REFINANCE SUPPORT PROVIDED BY NABARD

The highlights of refinance support provided by the National Bank to cooperative credit institutions, RRBs and commercial banks and loans to state governments, during 2002-03 are presented below.

A. Short-Term Credit

i. State Cooperative Banks

a. Seasonal Agricultural Operations (SAO)

During 2002-03 (upto March 2003), ST credit limits for SAO aggregating Rs. 6,674.52 crore were sanctioned to 17 SCBs on behalf of 229 District Central Cooperative Banks (DCCBs), as compared to Rs. 6, 546.92 crore sanctioned during 2001-02, (July-June) to 19 SCBs on behalf of 268 DCCBs given in Table 3.3.

Table 3.3

Limits Sanctioned for ST (SAO)

(Rs. Crore)

S.No.	Agency	2000-01	2001-02	2002-03
01.	State Cooperative Banks	6,507.51	6,546.92	6,674.52
02.	Regional Rural Banks	1,115.95	1,192.14	1,252.36
	TOTAL	**7,623.46**	**7,739.06**	**7,926.88**

The credit limits sanctioned for the year 2002-03 included Rs. 862.57 crore for the Oilseeds Production Programme (OPP), Rs. 58.89 crore for the National Pulses Development Programme (NPDP) and Rs. 194.31 crore for meeting the production credit requirements of tribals under the Development of Tribal Population (DTP). Short Term (SAO) since 1982-83 to 2001-02 has been shown in table 3.4.

It is evident from the below given table that short-term credit support provide over the years (July to June) by the NABARD was Rs. 1658.4 cr. In 1982-83 & maximum outstanding was Rs. 1230.7 crore i.e. 74.2 per cent In 1990-91 the limit sanctioned was Rs. 4134.6 crore & maximum outstanding was Rs. 3102.6 cr i.e. 75%. This percent went to 80.1 in 1995-96 with a bit of increase in 2000-01 with 81.6 per cent. In 2001-02 the maximum outstanding in percent utilization was 84.1.

Table 3.4

Short-term credit support provided over the years (July to June)

(Rs. Crore)

Short Term									
Years	SAO			OSAO			TOTAL		
	Limits	Maxi O/s	%utilization (Max.O/s)	Limits	Maxi O/s	%utilization (Max.O/s)	Limits	Maxi O/s	%utilization (Max.O/s)
1982-83	1347.2	1046.2	77.7	311.2	184.5	59.3	1658.4	1230.7	74.2
1983-84	1515.7	1044.3	68.9	363.8	215.0	59.1	1879.6	1259.3	67.0
1984-85	1437.0	1046.5	72.8	298.0	204.8	68.7	1735.0	1251.3	72.1
1985-86	1537.2	1085.9	70.6	364.1	233.3	64.1	1901.3	1319.2	69.4
1986-87	1652.2	1143.2	69.2	356.3	227.1	63.7	2008.5	1370.3	68.2
1987-88	2307.3	1581.8	68.6	391.5	259.3	66.2	2698.8	1841.1	68.2
1988-89	2835.3	2054.2	72.5	526.6	433.3	82.3	3361.9	2487.5	74.0
1989-90	3277.3	2512.0	76.6	626.5	475.6	75.9	3903.8	2987.6	76.5
1991-92	3431.4	2973.6	86.7	792.0	630.1	79.6	4223.4	3103.7	73.5
1992-93	3700.9	2922.5	79.0	746.5	591.2	79.2	4447.4	3513.7	79.0
1993-94	3968.9	3230.8	81.4	779.1	463.6	59.5	4747.9	3694.4	77.8
1994-95	4691.4	3944.2	84.1	1079.1	857.4	79.5	5770.5	4801.6	83.2
1995-96	5415.3	4358.5	80.5	1251.5	982.2	78.5	6666.8	5340.1	80.1
1997-98	6091.5	5270.3	86.5	1048.4	729.5	69.6	7139.4	5999.9	84.0
1998-99	7036.4	5486.7	78.0	1047.1	853.3	81.5	8083.5	6340.4	78.4
1999-00	7103.7	5932.3	83.5	1065.4	813.4	76.3	8169.1	6745.7	82.6
2000-01	7623.4	6238.1	81.8	971.5	773.6	79.6	8594.9	7011.7	81.6
2001-02	7712.7	6560.0	85.1	958.5	735.2	76.7	8671.2	7295.1	84.1

Note : The limits sanctioned as well as the maximum outstanding(Max. O/s) indicated there against pertain t the different operative periods.
Source : Publication of NABARD

The frequency distribution of SCBs according to percentage utilization of credit limits sanctioned indicated that only six SCBs have utilized limits above 90 per cent in the table 3.5.

Table 3.5

SAO- Level of Utilisation by SCBs

Utilisation to Limits Sanctioned (%)	SCBs (No.)
Above 90	6
80-90	4
70-80	1
60-70	1
Below 60	5

No limits was sanctioned to Jammu & Kashmir, Nagaland and Tripura SCBs
Source: Annual Report of Nabard, 2002-03, p. 157

b. Weaver's Finance

During the year 2002-03 (April-March), Short-Term (ST) credit limit aggregating Rs. 550.93 crore, as against Rs. 683.52 crore during the year 20C 1-02, were sanctioned to different SCBs on behalf of concerned DCCBs for financing production/procurement and marketing activities of Weavers' Cooperative Societies, against which the maximum outstanding reached was Rs. 347.85 crore (Rs. 489.07 in 2001-02) forming 63 per cent[11] (72 per cent in 2001-02) i.e. 9 per cent less[12]. The cooperative banks in Andhra Pradesh, Kerala, Orissa, Tamil Nadu and West Bengal, where the cooperative handloom movement is well developed, accounted for nearly 99 per cent of the total credit limits sanctioned by the National Bank for the year 2002-03. The credit limits sanctioned during 2002-03 (April-March) to SCBs on bahelf of Apex/Regional Weaver's Societies for trading in yarn amounted to Rs. 16.02 crore, as against Rs. 19.87 crore during the previous year. This shows that weaver's section was given less attention in 2002-03.

ii. Regional Rural Banks

The short-term credit limits sanctioned for ST (SAO) to 159 RRBs during the year 2002-03 (upto March 2003) stood at Rs. 1,252.36 crore including Rs. 116.17 crore for OPP (for 27 RRBs) and Rs. 42.97 crore for Development of Tribal Population (DTP) (for 31 RRBs) is given in table 3.3. Among these states, Andhra Pradesh with Rs. 263.84 crore continued to have the largest share of credit limits sanctioned to RRBs, followed by Karnataka with Rs. 236.34 crore. The aggregate sanction of credit limits for ST (OSAO) purposes to RRBs during the year 2002-03 (upto March 2003) stood at Rs. 153.42 crore.

B. Medium-Term Credit

i. Investment Credit

In view of the National Bank's policy of encouraging banks to formulate schemes for financing investments in agriculture,

[11] Annual Report of NABARD, 2002-03 p. 157
[12] Annual Report of NABARD, 2001-02 P. 133

sanctioning of the credit limits for supporting their general non-schematic medium-term lending was low during the year 2002-03. Credit limits sanctioned to seven RRBs in 4 states (Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal) aggregated Rs. 3.19 crore. The limits were utilized to the extent of 11 per cent only, i.e., Rs. 0.34 crore. For details of medium-term, non-schematic and conversion credit limits by national banks can be read from the following table 3.6.

Table 3.6

Medium-Term Non-Schematic and Conversion Credit Limit by National Banks to Cooperative Banks/RRBs

(Rs. Crore)

Year	Non-Schematic		Conversion		Total	
	Limits	Drawals	Limits	Drawals	Limits	Drawals
1982-83	28.35	17.13	173.99	90.75	202.34	107.88
1983-84	31.36	18.73	56.64	54.69	88.00	73.42
1984-85	26.50	17.11	123.69	72.64	150.19	89.75
1985-86	25.32	13.53	116.67	88.39	141.99	101.92
1986-87	23.46	13.74	191.69	120.40	215.15	134.14
1987-88	21.03	13.02	335.39	280.11	356.42	293.13
1988-89	17.77	10.18	156.40	125.20	174.17	135.38
1989-90	17.98	4.40	146.70	53.81	164.68	58.21
1990-91	104.3	81.59	163.20	153.76	267.23	235.35
1991-92	89.40	69.55	74.33	59.59	163.73	129.14
1992-93	178.42	161.73	247.32	117.56	425.74	279.29
1993-94	68.92	49.62	42.61	28.26	113.53	77.88
1994-95	94.62	72.88	165.58	77.72	260.20	150.60
1995-96	57.24	38.85	109.66	45.94	166.90	84.79
1996-97	25.80	13.82	266.90	56.39	292.70	70.21
1997-98	10.64	8.70	163.19	278.84	173.83	287.54
1998-99	8.36	6.83	469.40	386.53	477.76	393.63
1999-00	7.16	5.23	194.29	52.50	201.45	57.73
2000-01	6.85	6.53	271.55	123.38	278.40	129.91
2001-02	2.50	0.50	866.63	313.39	869.13	320.56

Source : Publication of NABARD

This shows that full amount sanctioned into medium-term non-schematic and conversion loans has not been fully utilized. The percentage of drawal, although differs from year to year but it indicates that on an average it has been around 36.88 percentage in 2001-02 although later it was 88.07 percent during 1990-1991.

ii. Conversion of ST (SAO) Loans

Credit limits for conversion of ST (SAO) loans of borrowers on account of damage to crops owing to natural calamities like floods, drought, etc., into MT (Conversion) loans aggregating Rs. 493.47 crore were sanctioned to SCBs in Madhya Pradesh, Maharastra, Punjab, Rajasthan and Uttar Pradesh during the year 2002-03.

C. Long-Term Loans to State Governments

National Bank provided long-term loans to state governments for contribution to the share capital of cooperative credit institutions subject to certain norms. During 2002-03, loans aggregating Rs. 60.55 crore were sanctioned to eleven state governments, viz., Andhra Pradesh, Gujarat, Haryana, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Manipur, Orissa, Punjab and Tamil Nadu for contribution to the share capital of various cooperative credit institutions. The state governments have drawn Rs. 28.16 crore upto March 2003.

D. Financing Procurement Operations of the Food Corporation of India (FCI)

On the recommendations of the National Bank, the aggregate share of allocation for 20 SCBs in the consortium for financing the procurement operations of the Food Corporation of India (FCI) increased to Rs. 2,755 crore during 2002-03, as against the allocation of Rs. 2,360 crore during 2001-02.

E. Investment Credit Operations

i. Refinance Disbursement

The total refinance disbursed by the National Bank during the year for investment purposes reached Rs. 7,418.77 crore, as compared to Rs. 6,682.91 crore during the previous year(2001-02), registering a growth of 11 per cent.

ii. Agency-wise Disbursements

The details of agency-wise refinance disbursed by the National Bank during 2001-02 and 2002-03 are given in Table 3.7. The share of SCBs and RRBs improved significantly during 2002-03, while that of SCARDBs and commercial banks declined, as compared to the previous year's position.

Table 3.7

Agency-wise Refinance Disbursements

(Rs. Crore)

Agency	**2001-02**		**2002-03**	
	Amount	**Share (%)**	**Amount**	**Share (%)**
SCARDBs	2,731.84	40.9	2,853.50	38.5
SCBs	1,089.06	16.3	1,783,73	24,1
RRBs	1,178.21	17.6	1,538.63	20.7
Commercial Banks	1,608.05	24.1	1,241.54	16.7
ADFCs/PUCBs	75.75	1.1	1.37	-
Total	**6,682.91**	**100.0**	**7,418.77**	**100.0**

Source : Annual Report of Nabard, 2002-03, p. 155

National Bank has taken a conscious decision to encourage lending by DCCBs/SCBs, especially in states where the SCARDBs are financially weak, so that the gap in meeting the credit needs of the members of cooperatives are contained in respect of investment credit. As a result, the flow of refinance to SCBs increased significantly, i.e., by 64 per cent during 2002-03 over 2001-02.

iii. Spatial Distribution of Refinance

The details of state-wise disbursement of refinance for investment credit during 2001-02 and 2002-03 are given in table 3.8. The flow of refinance varied widely across different states. The largest amount of Rs. 1,175.64 crore was availed of by various agencies in Uttar Pradesh, followed by Andhra Pradesh (Rs. 761.34 crore), Tamil Nadu (Rs. 682.86 crore), Maharashtra (589.60) and Karnataka (Rs. 452.85 crore). The states in the southern region accounted for 29.8 percent of refinance followed by the states in the central region (22.7%) and northern region (21.8%). The aggregate disbursements to the states in the NER, including Sikkim, stood at Rs. 123.36 crore compared to Rs. 83.04 crore during the previous year, registering a growth of 48.6 per cent.

State Cooperative Banks in Gujarat, Karnataka, Maharashtra, Punjab and Tamil Nadu claimed 60.9 per cent of the refinance disbursed to all the SCBs in the country. As much as 65.8 per cent of the refinance disbursed to SCARDBs was absorbed in the states of Haryana, Kerala, Madhya Pradesh, Punjab and Uttar Pradesh, RRBs in the states of Andhra Pradesh, Karnataka, Orissa, Uttar Pradesh and West Bengal availed 70.2 per cent of the total refinance disbursed to them. State-wise & purpose-wise refinance disbursement to all agencies till 2002-03 is shown in

Appendix IV and state-wise refinance disbursements during 2001-02 and 2002-03 is shown in table 3.10.

Table 3.10

State-wise Refinance Disbursements

(Rs. Crore)

S.No.	Zone/State /UT	2001-02		2002-03	
		Amount	**Share (%)**	**Amount**	**Share (%)**
I. South Zone					
1.	Andhra Pradesh	602.14	9.0	761.34	10.3
2.	Karnataka	343.25	5.1	452.85	6.1
3.	Kerala	373.29	5.6	307.70	4.1
4.	Lakshadweep	0.09	*0.0	-	-
5.	Pondicherry	4.32	0.1	5.33	0.1
6.	Tamil Nadu	538.99	8.1	682.86	9.2
	Sub Total	**1,862.08**	**27.9**	**2,210.09**	**29.8**
II. North Zone					
7.	Chandigarh	0.09	*0.0	6.25	0.1
8.	Delhi	6.27	0.1	6.79	0.1
9.	Haryana	403.66	6.0	478.13	6.4
10.	Himachal Pradesh	126.72	1.9	175.93	2.4
11.	Jammu & Kashmir	39.17	0.6	48.79	0.6
12.	Punjab	437.42	6.5	573.31	7.7
13.	Rajasthan	405.37	6.1	330.36	4.5
	Sub Total	**1,418.70**	**21.2**	**1,619.55**	**21.8**
III. North-East Zone					
14.	Arunachal Pradesh	2.65	*0.0	69.0	0.1
15.	Assam	48.58	0.7	69.37	0.9
16.	Manipur	0.55	*0.0	5.19	0.1
17.	Meghalaya	7.61	0.1	9.17	0.1
18.	Mizoram	9.48	0.1	15.85	0.2
19.	Nagaland	1.62	*0.0	2.18	*0.0

20.	Tripura	9.20	0.1	10.96	0.2
	Sub Total	**79.69**	**1.0**	**119.61**	**1.6**
IV. East Zone					
21.	Bihar	97.31	1.5	82.10	1.1
22.	Jharkhand	45.28	0.7	39.08	0.5
23.	Orissa	320.16	4.8	269.75	3.6
24.	West Bengal	324.59	4.9	414.95	5.6
25.	A N Islands	2.66	*0.0	4.05	0.1
26.	Sikkim	3.35	0.1	3.75	0.1
	Sub Total	**793.35**	**12.0**	**813.68**	**11.0**
V. Central Zone					
27.	Madhaya Pradesh	343.91	5.1	409.65	5.5
28.	Chhattisgarh	60.59	1.0	64.49	0.9
29.	Uttar Pradesh	1,027.44	15.4	1,175.64	15.8
30.	Uttarnchal	22.12	0.3	34.61	0.5
	Sub Total	**1,454.06**	**21.8**	**1,684.39**	**22.7**
VI. West Zone					
31.	Dadra & Nagar Haveli	0.14	*0.0	0.09	*0.0
32.	Gujarat	314.44	4.7	362.56	4.9
33.	Goa	19.10	0.3	19.20	0.3
34.	Maharashtra	741.35	11.1	589.60	7.9
	Sub Total	**1,075.03**	**16.1**	**971.45**	**13.1**
	Grand Total	**6,682.91**	**100.0**	**7,418.77**	**100.0**

* Negligible

Source : Annual Report of NABARD 2002-03

iv. Purpose-wise Disbursements

A significant increase in the availment of refinance from the National Bank over the previous year was recorded in sectors such as rural housing (54.%), Self Help Groups (SHGs) (57%), minor irrigation (24%), non-farm sector (NFS) and dairy development (11% each) and land development (86%). The refinance disbursements under sheep/goat/piggery increased only marginally during 2002-

03. As against this, there was a sharp decline (27%) in refinance disbursed for farm mechanization on account of a general decline in GLC flow to this sector during 2002-03 as compared to the previous year.

The SCBs accounted for 44.7 per cent of the disbursements for NFS followed by SCARDBs (25%) and RRBs (21%). In the case of rural housing, RRBs, SCARDBs and SCBs accounted for 35,32 and 28 per cent, respectively, aggregating 95 per cent of the total disbursements.

It is evident from the table that the disbursement of refinance under Swarnjayanti Gram Swarozgar Yojana (SGSY), including the refinance disbursed by the National Bank under the erstwhile IRDP, Development of Woman and Children in Rural Areas (DWCRA), etc. during the year 2002-03 was Rs. 401.29 crore. The RRBs and commercial banks together accounted for 87.2 per cent of the total disbursements under SGSY. Disbursements were largely concentrated in the states of Bihar, Jammu & Kashmir, Maharashtra and Uttar Pradesh.

The details of purpose-wise disbursement of refinance during 2001-02 and 2002-03 are given in table 3.11.

Table 3.11

Purpose-wise Disbursement of Refinance

(Rs. Crore)

Purpose	2001-02		2002-03	
	Amount	**Share (%)**	**Amount**	**Share (%)**
Minor Irrigation	691.06	10.3	854.97	11.5
Land Development	134.62	2.0	250.69	3.4
Farm Mechanization	1,358.89	20.3	992.60	13.4
Plantation/Horticulture	280.34	4.2	292.03	3.9
Dairy Development	821.18	12.3	909.19	12.3
Poultry	69.81	1.1	76.21	1.0
Sheep/Goat/Piggery	105.85	1.6	109.60	1.4
Fisheries	36.35	0.5	34.73	0.5
Forestry	16.09	0.2	12.40	0.2
Storage & Market Yard	227.14	3.4	48.47	0.7
SGSY	558.98	8.4	401.29	5.4
Non-Farm Sector	1,115.65	16.7	1,237.87	16.7
Rural Housing	500.25	7.5	769.53	10.4
SC/ST-Action Plan	130.54	2.0	112.08	1.5
Self-Help Groups	395.26	5.9	622.47	8.4
Others*	240.90	3.6	694.64	9.3
Total**	**6,682.91**	**100.0**	**7,418.77**	**100.0**

* Others include rural godowns and cold storages, two wheelers, home-stead farming, contract farming, bullock-carts, etc.

** Includes an amount of Rs. 28.45 crore as interim finance disbursed in the previous year and adjusted during 2002-03 by floatation of Special Development Debentures (SDDs) and excludes an amount of Rs. 14.54 crore disbursed as interim finance during 2002-03, which will be adjusted in the forthcoming year with the floatation of SDDs.

Source : Annual Report of Nabard, 2002-03, p. 165

The share of NFS in total refinance disbursements remained almost stagnant at about 17 per cent during 2002-03. However the Position improved after 1990-91. See table 3.12.

Table 3.12

Purpose-wise/year-wise refinance disbursement for investment Credit during 1982-83 - 2001-02

(Rs. Crore)

S.NO	Purpose	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	Cumulative Total	%Share to Total
01	Minor Irrigation	244	312	335	385	460	473	387	498	496	502	561	589	597	607	592	524	543	618	626	691	10040	18.3
02	Land Development	21	29	43	27	26	25	18	11	16	14	13	18	16	29	44	59	63	73	106	133	784	1.4
03	Farm Management	147	204	170	200	192	200	158	225	338	381	518	631	685	701	871	1100	1345	1705	1900	1359	13030	23.8
04	Plant & Horticulture	27	38	47	63	68	75	65	97	94	99	105	122	129	138	149	185	182	195	247	280	2405	4.4
05	Poultry/Sheep/Piggery	13	13	23	26	32	38	45	68	73	85	62	96	134	165	184	199	227	218	187	176	2064	3.8
06	Fisheries	4	7	10	13	18	20	19	21	21	31	31	55	101	107	4[illegible]	32	30	27	34	37	659	1.2
07	Dairy Development	24	13	23	29	48	52	51	75	73	84	102	148	170	183	241	353	457	581	769	821	4297	7.8
08	Storage & Market Yards	13	9	12	19	26	29	16	13	14	9	15	16	18	21	14	14	16	15	101	227	617	1.1
09	Forestry	4	5	2	10	9	19	11	17	29	22	25	20	13	11	9	11	9	12	13	16	267	0.5
10	Bio-Gas	5	5	10	19	20	17	8	12	12	9	7	6	4	2	1	1	1	1	1	8	149	0.3
11	Non-Farm Sector	-	-	-	1	16	45	59	62	80	104	184	329	411	460	644	617	654	838	1022	1616	7142	13.0
12	IRDP/SGSY	185	233	354	376	379	448	403	549	602	647	649	662	622	461	513	610	735	590	642	559	10219	18.7
13	SHG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	98	251	395	744	1.4
14	Others	16	24	32	24	40	41	30	54	54	67	87	53	111	179@	220	217	259	244	259	365	2376	4.3
	TOTAL	**703**	**892**	**1061**	**1192**	**1334**	**1482**	**1270**	**1702**	**1902**	**2054**	**2359**	**2745**	**3011**	**3064**	**3523**	**3922**	**4521**	**5215**	**6158**	**6683**	**54793**	**100**

Source : Various Years of Annual Report of NABARD

The table indicates that an overall investment of Rs. 5479 crores has been made by the NABARD from 1982 to 2002 on farm and non-farm sector. Looking into the credit requirements of the two sectors. This is a very small investment. No doubt more emphasis has rightly been made on minor irrigation, Land Development and schemes covered under IRDP/SGSY but the farm sector of the rural society engaged in Fisheries, Poultry, Storage, Forestry and Dairy have been neglected. We need today a dynamic policy which can address to the needs of poor section of the rural society the declaration made by the Prime Minister gives hope for future.

National Bank continued to make special efforts to increase the flow of refinance to the weaker sections of the population. The disbursements under the Schedule Caste/Schedule Tribe (SC/ST) action plan stood at Rs. 112.08 crore during 2002-03. Among the states, West Bengal availed the maximum amount of refinance followed by Uttar Pradesh, Maharashtra and Himachal Pradesh.

National Bank disbursed 41 per cent of the refinance in 2002-03 (excluding refinance in respect of loans for farm mechanization, institutions etc.) to small farmers, which declined to 17 per cent from the previous year i.e., 2001-02 see table 3.13.[13]

[13] Annual Report of NABARD 2001-02 p. 135

Table 3.13

Refinance against Loans to Small Farmers (2002-03)

(Rs. Crore)

S. No.	Purpose	Total Disbursement	Disbursement to SF@	No. of SF Accounts (lakh)	Assistance to SFs (% to total disbursement)
i.	Minor Irrigation*	1,105	641	4	58
ii.	Diversified Purposes**	6,314	2,371	37	38
	Total	**7,419**	**3,012**	**41**	**41**

@ Covers borrowers under IRDP, inclusive of ISB components.

* Excluding REC and land development

** Excludes refinance for farm mechanization, storage, market yards, seed projects, forestry, etc.

Source : Annual Report of Nabard, 2002-03, p. 165

v. Capital Investment Subsidy Scheme

a. Cold Storages

The captioned subsidy scheme initially launched for a period of three years (1999-02), extended to the Tenth Five Year Plan period made a steady progress and 105 projects with a total financial outlay of Rs. 135.41 crore, bank loan of Rs. 70.56 crore and refinance assistance of Rs. 20.39 crore were sanctioned. The subsidy disbursement during 2002-03 aggregated Rs. 45.87 crore. Cumulatively, as on 31 March 2003, as many as 499 projects with a total financial outlay of Rs. 674.18 crore, bank loan of Rs. 367.44 crore and refinance assistance of Rs. 267.68 crore with eligible subsidy of Rs. 151.03 crore were sanctioned in 19 states. The cumulative disbursements of refinance and release of subsidy stood at Rs. 169.18 and Rs. 116.25 crore, respectively. These sanctioned projects envisaged creatio 1 of 23.24 lakh tonnes for rehabilitation of existing cold storage and 3,298 tonnes for storage of onion. Of the 499 sanctioned projects, 296 projects with a storages capacity of 12.73 lakh tones were completed and commissioned. Commercial banks were the major participants in the scheme.

b. Rural Godowns

A scheme for providing subsidy by the GOI for construction of rural godowns was approved for implementation for a period of two years (2001-03) with an outlay of Rs. 334.43 crore and subsidy amount of Rs. 90 crore for creation of a capacity of 18.50 lakh tonnes of new rural godowns and renovation of godowns with a capacity of 1.51 lakh tones. The GOI extended the scheme to the Tenth Five Year Plan period. As on 31 March 2003, as many as 995 schemes with a capacity of 59.29 lakh were sanctioned in 14 states with an outlay of Rs. 713.83 crore, bank loan of Rs. 482.59 crore an eligible subsidy amount of Rs. 123.65 crore. A subsidy amount of Rs. 60.76 crore was released to various financing banks. The refinance released was Rs. 177.32 crore. There was considerable demand for the construction of rural godowns in the states of Andhra Pradesh, Haryana and Punjab.

vi. On-Farm Water Management Scheme in Eastern States

A scheme for on-farm water management was launched by the GOI during 2001-02 with provision of subsidy for construction of shallow tube-wells, dugwells, low life points and pumpsets in 10 states of eastern India. The scheme continued during the Tenth Plan period. National Bank associated with the implementation of the scheme, prepared block-wise and district-wise banking plans in consultation with banks and respective state governments. The banking plans envisaged financing of about 1.66 lakh beneficiaries with a subsidy of Rs. 117.63 crore during 2002-03. Owing to the drought like situation prevailing in the country during 2002-03, implementation of the scheme assumed greater significance. As on 31 March 2003, total subsidy of Rs. 64.58 crore was released to financing banks in nine states.

vii. Scheme for Development of Non-forest Wastelands

A central sector capital subsidy scheme (investment promotion scheme) launched by the GOI in collaboration with the National Bank, for development of privately owned non-forest wastelands in the country, was implemented in 1998. The scheme provided for subsidy upto 25 per cent of bank loan with a ceiling of Rs. 25 lakh for taking up plantation and other on-farm development works in private wastelands. Till, schemes covering about 1,058.46 hectare were implemented, involving bank loan of Rs. 8.07 crore. The coverage under the scheme was mostly confined to three states, viz., Andhra Pradesh, Maharashtra and Tamil Nadu.

viii. Million Shallow Tubewell Programme (MSTP)

In order to speed up implementation of the MSTP, implemented in 38 select districts of Bihar. The National Bank took special measures and conducted a series of meetings involving the State Government, Planning Commission and participating banks during 2002-03. Out of the target 57,111 units fixed for 2002-03, the implementing agencies (RRBs & commercial banks) sanctioned 50,966 units involving a bank loan of Rs. 119.06 crore. Bank loans of Rs. 90.52 crore were released in respect of 46,878 units during the year. The physical achievement thus worked out to 82 per cent of the target for 2002-03.

ix. Monitoring/Investment-Specific Studies

In the year 2002-03, 34 district oriented monitoring studies, 26 investment-specific studies and 14 scheme-specific studies were conducted by the Bank. While highlighting the positive trends, the studies identified procedural deficiencies and operational constraints in scheme implementation. The studies revealed that investments in agriculture and allied activities under various programmes, including SGSY, generated additional income and brought a large number of poor families above the poverty line. Certain inadequacies in the implementation of schemes like incidence of under financing, delays in sanction of loans, absence of skill upgradation among beneficiaries, etc., were observed.

Non-adherence to technical norms, cumbersome loan sanctioning procedures, absence of necessary follow-up and monitoring by the banks impaired the end use of credit. These inadequacies were communicated to banks and line departments for remedial measures.

PHYSICAL ACHIEVEMENT

With the refinance of Rs. 7,418.77 crore disbursed under investment credit during the year, the cumulative refinance support extended by the National Bank for investment purposes aggregated Rs. 64.984 crore on 31 March 2003. Sector-wise details on the estimates of physical units created through refinance support from the National Bank under various activities have been presented in Table 3.14.

Table 3.14

Physical Units Financed and Completed

S.No.	Investments	Units	Units Financed upto		Units Completed upto
			31 March 2002	31 March 2003	31 March 2003
1.	Minor Irrigation*				
	i. Tubewells with pumpsets	'000	1,426	1,448	1,445
	ii. Dugwells with pumpsets	'000	2,037	2,041	2,039
	iii. Dugwells with conventional lifts	'000.	1,274	1,526	1,521
	iv. Pumpsets on existing wells	'000.	2,131	2,223	2,220
2.	Land Development	'000ha.	2,945	3,048	3,042
3.	Farm Mechanisation				
	i. Tractors	'000	1,159	1,194	1,193
	ii. Power tillers	'000.	144	149	148
	iii. Other farm equipments	'000 ha.	393	472	470
4.	Plantation & Horticulture	'000 ha.	1,792	1,899	1,895
5.	Forestry #	lakh ETPs	2,306	2,315	2,314
6.	Storage	'000 tonnes	15,111	16,375	16,369
7.	Market Yards	No.	1,978	1,999	1,997
8.	Poultry	lakh birds	1,639	1,639	1,677
9.	Sheep/Goat Rearing	'000 animals	36,162	36,310	36,309
10.	Dairy Development	'000 animals	13,407	13,702	13,697
11.	Piggery	'000 animals	1,612	1,620	1,618
12.	Fishery				
	i. Mechanised boats	No.	21,147	21,565	21,563
	ii. Other boats	No.	72,126	72,543	72,541
	iii. Brackish water aquaculture	ha.	4,780	5,055	5,055

	iv. Fresh water aquaculture	'000 ha	340	351	350
13.	Non-Farm Sector	'000	3,762	4,735	4,730
14.	Miscellaneous $	'000	11,076	11,551	11,547

** Covers only major items of investments, # All the trees are assumed to be planted by the end of the period under reference, $ Includes investments such as bullocks, carts, etc.*

Source : Annual Report of NABARD 2002-03,

ECONOMIC IMPACT

National Bank conducted twelve ex-post evaluation studies, viz., four on minor irrigation, three on plantation and horticulture, four on rural non-farm sector and one on dairy development during 2002-03.

The studies on minor irrigation revealed that greater access to irrigation included increased use of the available land resources through intensive crop cultivation and enhanced crop diversification towards commercial and high value crops, which contributed substantially to yield and income from the investments. As a result, the Financial Rate of Return (FRR) remained high on these investments, ensuring bank ability of the farm investments in irrigation. The study findings further revealed that increased irrigation could minimize production as well as investment risks by restricting investment failure on the one hand and improving the efficiency of irrigation on the other. The employment effect was equally impressive as additional employment in the range of 63 to 118 person days per hectare could be generated by such investments.

The evaluation study on dairy development (cow units) revealed that credit support extended for other activities like, seasonal agricultural operations, minor irrigation, land development, etc., had created significant induced effect on the expansion of dairy as supplementary activity in the rural areas. The study further revealed adoption of advanced technologies and improved management practices in the rearing of animals by farmers. With enhanced lactation days and better feed management resulting in improved milk yield and price, the profitability and financial viability of the investment in this sector continued to be high and sustainable, which was also reflected in an impressive repayment performance of 80 per cent. The employment generation was as high as 60 persondays per animal.

Under plantation and horticulture, evaluation studies in respects of three investment activities, viz., orange cultivation, floriculture and sericulture were conducted during the year. The study of orange orchards in Jhalwar district of Rajasthan revealed improved land use pattern, thereby augmenting the land productivity significantly. The investment was financially viable with Financial Rate of Return (FRR) at 29 per cent and generated annual recurring employment of 166 persondays per hectare the repayment performance of the borrowers was high at 94 per cent. The study on floricultu e, viz., cultivation of rose, tuberose, hibiscus and gladiolus in Midnapore district of West Bengal revealed that the investment cost varied widely among the borrowers due to variation in planting materials used, as also application of pesticides, fertilizers and use of labour inputs. Financial rate of return at more than 50 per cent for all four types of floriculture investments was indicative of their sound financial viability. Generation of additional recurring employment ranged from 375 (gladiolus) to 1,375 (rose) persondays per hectare.

The evaluation study on sericulture in Anantapur district of Andhra Pradesh showed annual employment generation of 622 persondays per hectare in the first year and 725 persondays per hectare from the second year onwards. Repayment performance (47%) of the sample borrowers of the investment was, however, not satisfactory, since the income accrued from this activity was diverted mostly for domestic consumption, including social ceremonies.

An evaluation study of rice mills covered under refinance for RNFs revealed that the incremental income ratio to gross income was fairly impressive, ranging between 36 and 61 per cent, depending upon the size of capital investment. As a result, the FRR also turned out to be fairly satisfactory (ranging between 15 and 35%) in the case of rice mills, largely due to high turnover rate, better capacity utilization and high factor productivity. The capacity utilization was found to be 200 per cent for most of the period. The generation of recurring employment was also high, ranging between, 1,432 and 2,894 persondays per unit p.a., and 9 and 10 persondays per operation day of the investment. With bank finance varying from 65 to 75 per cent, the incidence of under-financing was visible in such investments. Recovery performance was found to be satisfactory at 80 per cent in these cases.

The evaluation stu ly in respect of investments financed under RNFS in Tamil Nadu covered activities such as, handloom, brick-kiln, general engineering and lamp making. The study revealed that the incremental income ratio varied between 26 and 35 per cent in the case of such investments. The generation of recurring employment was high, ranging between 334 and 5,186 persondays per units, depending upon the size of capital invested. The FRR exceeded 25 per cent and was as high as 49 per cent. The income ratios of investments in agro-processing such as, bakery units, milk processing and flour mills were more impressive (55-75%) mainly due to high turnover rate and larger capacity utilization. The FRR exceeded 50 per cent in respect of such investments. The annual employment generation ranged between 600 and 1,200 persondays per unit.

The findings of the evaluation studies provided valuable feedback on policy and operational issues to the National Bank as well as implementing agencies. Operational deficiencies such as non-adherence to technical norms, weak post-disbursement follow-up by banks, incidence of under financing etc., were brought to the notice of the participating banks for review of policies. National Bank used the data obtained from these studies as ex-ante information for project appraisal of respective investment activities. The government departments were also advised to improve backward and forward linkage support by providing quality seedings, better disease prevention measures, improved road connectivity, regular power supply, etc.

EXTERNALLY AIDED PROJECTS

A. On-going Projects

In all, nine external y aided projects are at various stages of implementation. Project-wise financial details indicating the National Bank's disbursements during the year and cumulative upto 31 March 2003 are presented in table 3.15.

Table 3.15

Externally Aided on-going Projects (As on 31 March 2003)

(Amt. Million)

				External Assistance		Disbursements made by National Bank (Rs.)		Amount received by National Bank (Rs.)	
S.No.	Name of the Project	Effect from	Closing Date	Total	Through National Bank	During 2002-03	Cumulative upto 31.03.2003	During 2002-03	Cumulative upto 31.03.2003
1.	KfW-NABARD V-Adivasi Development Programme in Gujarat*	23Dec. 1994	30 Dec. 2007	Euro 13.29 (DM 26)	Euro 13.29 (DM 26)	56.33	326.37	60.90	342.01
2.	KfW-NABARD-Adivasi Special Programme in Gujarat*	19 Dec. 2002	30 Dec. 2007	Euro 1.5	Euro 1.5	-	-	73.83	73.83
3.	KfW-NABARD IX- Adivasi Development in Maharashtra	2 June 2000	30 Dec. 2010	Euro 14.32 (DM 28)	Euro 14.32 (DM 28)	25.50	43.33	26.89	47.49
4.	KfW-NABARD IV-Watershed Development Programme in Maharashtra (Phase II)	7 April 2000	30 Dec. 2005	Euro 12.78 (DM 25)	Euro 12.78 (DM 25)	68.08	407.92	85.92	434.01
5.	KfW-NABARD-Indo-German Watershed Development in Andhra Pradesh	15 July 2002	30 Dec. 2011	Euro 8.69 (DM 17)	Euro 8.69 (DM 17)	-	-	-	-
6.	KfW-NABARD-SEWA Bank Capitalisation of Rural Financial Intermediaries	28 June 2002	31 Dec. 2009	Euro 4.09	Euro 4.09	-	-	-	-

7.	CEC-BAIF Project-Transfer of Technologies for Sustainable Development	16 Nov. 1995	31 Dec. 2004	ECU 19.50	ECU 19.50	76.81	595.64	77.96	600.08
8.	NABARD-GTZ-Technical Collaboration-Linkage of SHGs to banks	11 Jan. 2000	31 Dec. 2003	Euro 1.16 (DM 2.27)	Euro 1.16 (DM 2.27)	15.58	50.86	18.09	41.09
9.	NB-SDC Collaboration-HID Partnership in Rural Finance	1 April 2000	31 Mar. 2005	SW Fr. 9.5	SW Fr. 9.5	115.11	269.29	59.41	120.05

* Rs. 35.73 million was transferred from Adivasi Special Programme to Adivasi Development Programme in Gujarat without actual receipt of funds from KfW.
Source : Annual Report of NABARD 2002-03

During 2002-03 an amount of Rs. 367.27 million has been actually received as grant assistance towards various projects. The progress and coverage under these projects are briefly highlighted below.

i. KfW-NABARD V-Adivasi Development Programme in Gujarat

The programme envisages rehabilitation of about 8,000 tribal families and 2,000 landless women living in the Dungar region of Dharampur taluka of Valsad district in Gujarat through development of a 'wadi' (orchard) for sustainable horticulture production in the waste/marginal lands of tribal families. The programme has been further extended to cover additional 706 families in 17 villages of the adjoining Dang district. The project period has been extended by one more year, i.e., upto 30 December 2007. The 'wadi' programme has so far covered about 4,800 hectare and 12,827 families from 162 villages. National Bank received Rs. 25.17 million during 2002-03 under the project and Rs. 35.73 was utilized from the funds received for KfW. NABARD Adivasi Special Programme in Gujarat, taking the cumulative receipts to Rs. 342.01 million. During the same year, an amount of Rs. 56.33 million was disbursed, taking the cumulative disbursement to Rs. 326.37 million.

ii. KfW - NABARD-Adivasi Special Programme in Gujarat

Encouraged by the response/results of the on-going KfW-NABARD V-Adivasi Development Programme in Gujarat, KfW Germany for expansion of the programme. The activities eligible for funding under the programme include establishment of 700 wadis, soil conservation measures, development of water resources to improve access to irrigation for 1,000 wadis. National Bank received Rs. 73.83 million for the entire programme during 2002-03.

iii. KfW - NABARD IX - Adivasi Development Programme in Maharashtra

KfW, Germany committed to provide grant assistance of Euro 14.32 million for Adivasi Development Programme in Maharashtra, which has been under implementation since September 2000. The project aimed at improving the socio-economic condition of 14,000 tribal families and 1,000 landless women through various economic and social welfare activities in three hilly blocks of Thane and Nasik districts of Maharashtra. The Maharashtra Institute of Technology Transfer for Rural Areas (MITTRA), an associate society of Bharatiya Agro Industries Foundation (BAIF), Pune, is the project executing agency. The National Bank received grant assistance of Rs. 26.89 million, taking the cumulative receipts to Rs. 47.49 million as on 31 March 2003 in which Rs. 25.50 million was disbursed, taking the cumulative disbursement to Rs. 43.33 million, covering 2,367 families from 65 villages.

iv. KfW-NABARD IV - Indo-German Watershed Development Programme, Maharashtra (PhaseII)

KfW, Germany also committed to provide financial assistance of Euro 12.78 million by way of grant under Phase II of the Indo-German Watershed Development Programme (IGWDP), Maharshtra, Phase II of the programme, which is under implementation since April 2000 and is scheduled to be completed on 30 December 2005. During the year 2003 the National Bank received Rs. 85.92 million from KfW, taking the cumulative receipts to Rs. 434.01 million from which an amount of Rs. 68.08 million was disbursed, taking the cumulative disbursement to Rs. 407.92 million.

During the same year, the project Coordination Unit of IGWDP – Maharashtra organized 14 training programmes for the benefit of farmers, women and Non Government Organization (NGO) staff from the watershed project areas at various Krishi Vigyan Kendras in the state. The National Bank sanctioned an amount of Rs. 1.19 million to Watershed Organisation Trust to organize various capacity building training programmes for the village communities of watershed areas.

v. KfW - NABARD Indo-German Watershed Development Programme in Andhra Pradesh

A grant assistance of Euro 8.69 million in the first phase for rehabilitation of watersheds in four selected districts of Andhra Pradesh, viz., Adilabad, Karimnager, Medak and Warangal was decided to be given by KfW, Germany. The project envisaged to improve the living conditions of the rural population depending on watershed resources in a sustainable and equitable manner through treatment of about 30 watersheds, thereby stabilizing and increasing the agricultural and forestry production in these districts. The programme covers a 10 years period with effect from July 2002 and the funds under the programme can be drawn upto 30 December 2011.

vi. KfW-NABARD-SEWA Bank-Capitalisation of Rural Financial Intermediaries

To improve the access of poor rural women to micro credit on a sustainable basis, through loaning and contribution to the equity of the District Association of Saving and Credit Groups KfW, Germany has promised to provide grant assistance of Euro 4.09 million. The overall objective is to contribute to the improvement in income generation and living conditions of the rural poor women and structural development of the rural financial sector in Gujarat. The programme is divided into two phases, viz., the pilot phase and the full implementation phase.

vii. CEC-BAIF Project-Transfer of Technologies for Sustainable Development

The project assisted by the Commission of European Community (CEC), (now European Union), started in 1996-97 aimed at achieving sustainable development of selected small and marginal farmers and landless families by promoting income generating activities and adopting simple but appropriate technologies. The major activities covered under this project are orchard and cattle development, sericulture and suitable off-farm activities. The project is under implementation through BAIF, Pune, in 216 villages of 11 districts spread over five states, viz., Gujarat, Karnataka, Maharashtra, Rajasthan and Uttar Pradesh benefiting

33,000 families living below poverty line, including those belonging to SCs and STs. The National Bank received Rs. 77.96 million from CEC, taking the cumulative receipts to Rs. 600.08 million as on 31 March 2003 and an amount of Rs. 76.81 million was disbursed, taking the cumulative disbursement to Rs. 595.64 million.

viii. NABARD-GTZ Technical Collaboration-Linking Savings and Credit SHGs to Banks

GTZ, Germany is providing technical support for unscaling the SHG-Bank linkage porgramme of the National Bank. The main objective of this collaborative project is 'capacity building' at different levels, viz., SHGS, Self Help Promoting Institutions (SHPIs), Primary Lending Institutions (PLIs) and the National Bank, for improving the access of rural poor to credit and other financial services and in the process, improving the outreach of the formal banking system with quality lending in rural areas. The project aims at promoting greater participation of the people, SHGs and establishment of grassroot level institutions. The financial assistance approved by Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) was Euro 1.16 million. The National Bank received Rs. 18.09 million from GTZ, taking the cumulative receipts to Rs. 41.09 million on 31 March 2003, and an amount of Rs. 15.58 million was disbursed, taking the cumulative disbursement to Rs. 50.86 million.

ix. NABARD-SDC Collaboration-HID Partnership in Rural Finance

Under NABARD-SDC collaboration, Swiss Agency for Development and Cooperation (SDC) is providing Sw.FR. 9.50 million as grant assistance to the National Bank for implementation of the Human and Institutional Development (HID) project. The project aimed at supporting the National Bank in its own HID efforts to improve the effectiveness of Rural Financial Institutions (RFIs). The objective of the project is to raise the effectiveness of the formal and informal Rural Finance System, including its intermediaries, in terms of providing rural poor (especially women) access to financial services and improving the financial and organizational viability of its intermediaries through innovations, dissemination of specific information HID measures and capacity building. The total cost of the project was estimated to be Rs. 6.27 million, which was shared by the National Bank and SDC in the proportion of 57.6 per cent and 42.4 per cent, respectively. A provision of Rs. 28 million had been made for innovations under the project. The National Bank received Rs. 59.41 million from SDC, taking the cumulative receipts to Rs. 120.05 million and an amount of Rs. 115.11 million was disbursed, taking the cumulative disbursement to Rs. 269.29 million till 31 March 2003.

B. Projects in Pipeline

The following projects are at various stages of negotiation and processing:

i. Kreditan Stalt fur Wiederaufbau (German Development Bank) (KfW), Germany has committed to provide grant assistance of Euro 9.20 million to selected project-executing NGOs exclusively towards partial financing of the investment costs for the rehabilitation of watersheds in Gujarat as well as consulting costs for the project.

ii. Indo-German Watershed Development Programme in Maharashtra (Phase III) involving Euro 19.94 million is in the stage of finalisation.

iii. KfW, Germany has, in principle, agreed to provide a grant assistance of Euro 15.83 million for Watershed Development

Programme in Rajasthan and Euro 7.16 million for extension of Adivasi Development Programme in Gujarat (Phase II).

NABARD was established on 12th July 1982 as a 'Rural Reserve Bank', with the primary objective to ensure adequate finance for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts, other rural crafts and such activities in rural areas which contribute to better integration of farm and non-farm sectors.

According to a survey, capital formation in agriculture as a percentage of total capital formation in the country which was 15.4 per cent in 1980-81, fell to 9.9 in 1990-91 and reached only 7.5 percent in 2000-01. Due to this sharp decline in capital formation the farm sector has stagnated.

Many factors have caused to low productivity in agriculture. Some of them are: (a) too many people depend on agriculture, (b) rural environment is not conducive for modernisation of agricultural activities (c) small size holding, (d) poor techniques of production (e) inadequate irrigation facilities (f) inadequate availability of agricultural credit (g) lack of crop diversification from staple wheat and rice to more profitable cash crops and restrictions on agri-marketing.

The performance of the farm sector during the Ninth plan has been very disappointing though in all these five years, rainfall was near normal. Against the target of 4.5 per cent per annum growth rate of agricultural GDP, the achievement was only 1.81 per cent, and against the target of 3.05 per cent per annum growth rate of food grains production, the achievement was only 1.23 per cent which is much less than the growth rate of our population.

Consequently, both poverty and under-nourishment have increased in rural India.

Inspite of all the favourable conditions for agricultural production, our productivity per hectare of most of the crops is much less than the world average, and less than half of those already achieved in agriculturally advanced countries. Achieving higher productivity in agriculture is the surest way to reduce incidence of poverty. The two states, Punjab and Haryana, whose yields per hectare are the highest in India, are also the two states with the minimum incidence of poverty, Maharashtra, which is considered to be the most industrialized state in India, has much higher incidence of poverty than Punjab and Haryana.

The Government expects to improve the credit system in next 3 years by doubling agriculture credit. This agricultural credit could not be doubled until more stress is laid on the credit given to the needy farmers. After twenty-three years still the funds provided to these sectors are inadequate. And unless the governance of cooperative banks and their financial resources are improved they wouldn't be able to cope with the need of the borrower. Many other reforms are needed as pointed out in the budget speech on 8^{th} July, 2004 of the Finance Minister. It is encouraging that action has been taken in the budget 2004-05 & the task force has been requested to submit their report by October 31, 2004.

In short, the followii g measures are needed to be followed for upgradration of rural sector by NABARD.

(a) New measures should be taken to ease the burden of debt and high interest rates on farm loans. Farm insurance schemes should be made more effective.

(b) It is important to provide the small borrowers with a credit mechanism to fall back on for meeting their emergent and consumption needs.

(c) Banks should provide a separate flexible revolving credit limit of production or investment loans to the small borrowers for meeting their temporary shortfalls in family cash flow. Banks may evolve suitable credit products/packages.

Some impediments to the flow of institutional credit to disadvantage sections are (1) higher transaction cost to banks and borrowers (2) unfriendly procedures, systems and documentation formalities, (3) borrowers inability to provide tangible collateral securities (4) distortion of normal banking principles on account of linking of credit with capital/interest sops under various poverty alleviation plans and (5) announcements of interest/loan waivers vitiating the recovering. These are to be reduced gradually.

Refinance assistance alone cannot ensure the sustainable viability as long as the cooperative credit institutions do not have the requisite strength. Therefore, systematic programmes of development of cooperative should be initiated by NABARD.

Crop, farm income and weather insurance schemes should be tried on a pilot basis in the coming years as they are the immediate needs for the upliftment of the rural sector.

The main strategy of Nabard till recently was to use the lever of refinance support for improving production and productivity of agricultural sector with a thrust on foodgrains and oilseeds, agro-processing, pilot projects for technology upgradation in rainfed farming on a watershed basis, afforestation and wasteland development, dairy, poultry, meat and fish products, and dryland horticulture. The fact, however, remains that financial support for diversification of agriculture has not gone very far, partly because banks still do not fully implement the terms of sanction stipulated by Nabard in regard to unit cost maturity, gestation period, etc., and this impairs the quality of lending and investment credit. The refinance provided for integrated rural development programme (IRDP), minor irrigation and farm mechanization accounts for the bulk of refinance disbursed by the NABARD.

In recent times, there has been higher support to non-farm sector in rural areas. Nabard has launched District Rural Industries Projects (DRIP) in some districts with the objective of generating sustainable employment opportunities through coordinated efforts in financing rural non-farm enterprises and creating the related infrastructure. Nabard has also prepared a labour-intensive policy package to put the economy on the "threshold of full employment". The time will judge the outcome.

From the foregoing discussion it is evident that NABARD has not delivered goods expected of it partly because of some inherent weaknesses of the system and partly due to problems of governance. However it has revolutionized the rural activities and a beginning has been made for the sound development of rural economy. It is expected that the efforts/policies of the UPA government will bear fruits.

For a better understanding of the potentials of NABARD the next chapter covers the period after liberalization with special reference to rural financing.

Chapter- 4

NABARD-Rural Financing After Liberalisation

Chapter- 4

NABARD-RURAL FINANCING AFTER LIBERALISATION

After the establishment of NABARD in 1982 it has done a tremendous amount of work to uplift the economic condition of the rural poor. The major milestone of Nabard before liberalisation is the establishment of the International Fund For Agriculture Development (IFAD) in 1982 with two projects of Rs.52.2crore for a period of 5 years. Nabard took over the sanctioned projects by World Bank/IDA & other international funding agencies like SDC, KfW, IFAD, CEC, etc. from ARDC. In 1983 Vikas Volunteer Vahini Scheme was launched for disseminating the five principles of "Development through Credit". Rural Non –Farm Sector expanded on the recommendation of seven task forces for handlooms, coir, sericulture, handicrafts, khadi & village industries, Organisation of Marketing Essentials & Tiny Industries. Also the Banker's Institute For Rural Development (BIRD) was set up in 1983 at Lucknow for providing training to client institutions. For the development of the entrepreneurs a soft loan assistance fund in 1984 was established with an initial contribution of Rs.2 crore. In 1985 separate line of credit for cooperative banks was launched for providing production credit under National Oilseeds Development Programme (NODP) of GOI. In the same year refinancing for establishment of show rooms /Emporia for handicrafts by the Apex/Regional Handicrafts Marketing Societies & State Handicrafts Development Corporations was established. In 1986 term loan refinance facility for weavers was introduced. Potential Linked Credit Plan (PLP) was introduced in the year 1987 & subsequently extended to all districts in the country. Also Self Employment Scheme For Ex-Servicemen (SEMFEX) was launche l for providing comprehensive credit package .In 1988 & 1989 Nabard introduced innovative arrangements of extending short-term production credit to farmers on a cyclical basis and District Development Manager's office was opened in 41 districts. In 1990 a project was started for participatory Watershed Development Programme from KfW (Kreditanstalt fur Wiederaufbau) Germany.

It was the early nineties, when India was passing through an unprecedented economic crisis, following political instability that was further aggravated by the impact of the Gulf-War .The country was trapped in galloping inflation, stress on balance of payment, frustrating position of foreign exchange reserves, & other micro-economic imbalances. The growth of the economy slowed down substantially in 1991-92, partly because of a slowdown in agriculture & partly because of deceleration in industrial growth. To overcome this situation in 1991 a package of economic reforms was introduced to set the stage for gradual liberalization & globalisation, to rejuvenate the economy & to reap the benefits of world wide moves in this direction. These reforms were introduced, first as a part of stabilization policy & later to bring in structural adjustment. Stabilization of the economy was important to correct the distortions in key economic areas, but more far reaching results could come only from structural reforms in the economy. These reforms were directed more or less in a sequential order first to industries, then to foreign trade & financial sectors. But in all these, agriculture was neglected. As a result, the share of agriculture in GDP started declining steadily. However, with the beginning of reforms there have been some significant changes in Nabard's working, particularly with regard to its dependence on resources from the government. Nabard was getting substantial support from RBI by way of contributions, to the tune of Rs.500 crore for its long-term operational fund for investment credit which was stopped in 1993. Now that contribution has declined to only Rs.1crore a year, that to because of the statutory condition under the act. The Organisation, which was also exempt from income tax, had also lost that status since 2001-02. Nabard paid about Rs.390 crore by way of tax for 2001-02 & about Rs. 400 crore for 2002-03. Hence, the organisation has started raising resources from the market & functions like any other institution in doing business.[1] Due to the reforms introduced in 1991 Nabard has launched some schemes to develop agriculture & rural sector in which important ones are as follows:

SERVICE AREA MONITORING AND INFORMATION SYSTEM (SAMIS)

For appropriate credit planning and policy formulation on rural credit, availability of accurate data is very crucial. Towards this goal, RBI in consultation with NABARD devised the Lead Bank Returns (LBRs) in the year 1991 which replaced the erstwhile Lead Bank Statements (LBS) prescribed for Banks under the Lead Bank Scheme. The LBRs contain valuable information such as sector-wise, purpose-wise, agency-wise credit flow besides information

[1] Alok Majumbadar, Business India, "Breaking New Ground, "Ashok H. Advani, Publisher, Bombay, June 9-22, 2003, p. 64

about the banks' recovery, targets vis-a-vis their credit disbursements under Government programmes/other programmes, etc. The responsibility of compilation of data from LBRs was assigned to the Lead Banks while NABARD took the responsibility of monitoring the submission of returns to the Lead Banks by banks. To facilitate compilation of data, NABARD developed a separate software called Service Area Monitoring And Reporting Using Developed Data Handling Implements(SAMRUDDHI) and provided the same to the Lead Banks/ SLBC conveners through its Regional Offices (ROs). The data so compiled serve as a useful base for discussions at DCC/DLRC and SLBC to evaluate banks' performance under the Lead Bank's Scheme. Till 2002-03 SAMIS had been established in 20 States and 3 Union Territories(UTs). NABARD is making continuous efforts to establish the system in the remaining states and Union Territories(UTs).

CO-OPERATIVE DEVELOPMENT FUND

This fund was constituted in 1992-93 with the objective of supporting various developmental initiatives of co-operative credit institutions to improve their functioning .The fund is augmented every year by contributions from National bank's profits. The assistance from the fund is made available by way of grants or loans or grant-cum-loans, depending upon the purpose. The cumulative sanctions & disbursements from the fund up to 31st march 2003 aggregated Rs.57.33crore & Rs.46.49crore, respectively .An amount of Rs.8.02crore was sanctioned during the year for supporting training of co-operative bank's personnel (Rs.3.28crore), computerisation (Rs.2.48crore), performance awards for co-operative banks(Rs.1.31crore), establishment of Business Development Cells (Rs.0.84crore) & other activities (Rs.0.11crore). The total grant amount disbursed during the same year (including disbursement against precious sanctions) was Rs.6.02crore. The impact of assistance provided through this fund so far has been generally satisfactory.

MICRO-FINANCE INNOVATIONS-

The government initiated efforts to give credit to the poor, through fiats on nationalised banks (loan melas), but this was more of a political gimmick & turned into a financial disaster for the banking system, and could not be sustained. Micro-finance developed its own methodology for lending by creating Self-Help Groups (SHGs) as the nucleus for the lending programme and, credit was given at a rate that was commensurate with the sustainability of the programme being undertaken by the group.[2] The recovery rate has shown a high rate more than 95 percent which is better than the recovery rate on loans to industry that are given after credit evaluation .

Micro finance thus, has been defined by the task force as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".

[2] S. Natarajan, The Hindu Business Line, "Macro lending, Challenges & opportunity, Delhi, May, 2004, p. 11

People who are at the lowest level, do not get food to eat and do not have shelter are the potential users of micro credit. Credit to these people is to help them to take up economic activities that earn income for life sustenance, to guide them to generate surpluses and savings over time. Obviously these borrowers cannot be expected to pay market-related interest costs.

At the next level are people whose basic needs are met and want to improve their income and standards of living. These borrowers may use the loan for marginal improvements in agricultural practices, acquiring low value income producing assets to supplement existing activities, start cottage industry and handicrafts, and so on. While these activities have higher returns, it may be inadequate to sustain market interest loans. The absence of direct links to end user markets and the dependence on intermediaries reduce the inherent profit margin of many of these activities. It must also be remembered that these borrowers also have limitations in terms of scale of operations and ability to use capital efficiently, at least in the initial years. What they need is low cost credit without stringent security conditions that help them to increase their income by building a strong economic base.

People at the next higher level are economically well of, credit worthy, and few in number than the first two categories, though their credit requirements will be much higher. Their credit needs are adequately met by banks and these borrowers are powerful enough to influence many decisions taken in their village.

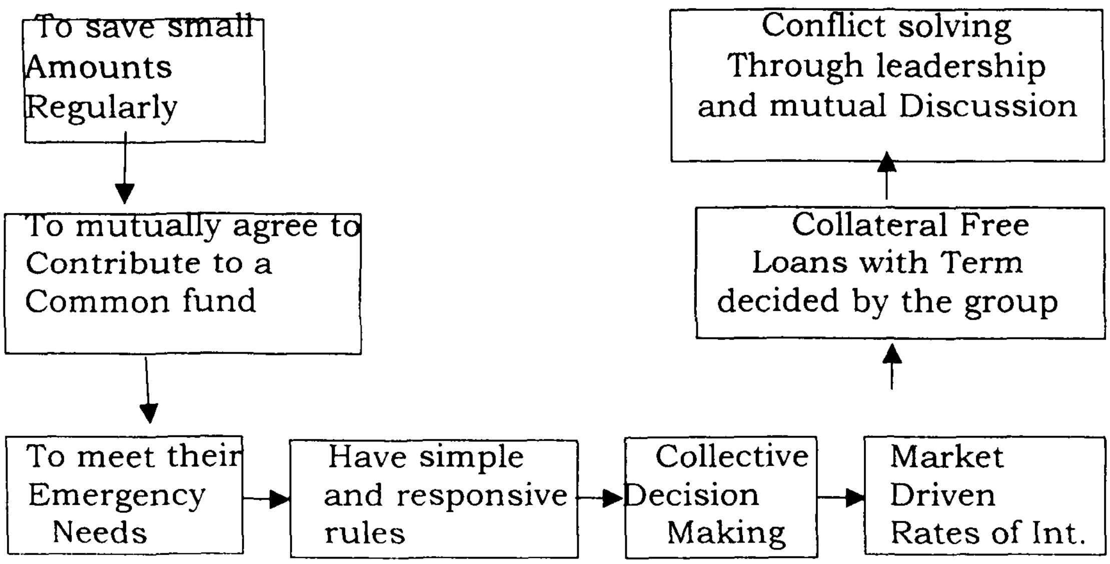
Hence, micro credit deals with the first two categories, as they need low cost loans given in conventional way .The third category is capable of raising money under the conventional system. These all created a need for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanisms, which would fulfil the requirements of the poorest, especially of the women members of such households. The emphasis therefore was on improving the access of the poor to microFinance (mF) rather than just micro-credit. For this NABARD led limited scale Pilot Project with the support of the Central Bank of the country, i.e. Reserve Bank of India in 1992 that aimed at promoting and financing 500 SHGs across the entire country.

NABARD and SHGs

Self-Help Group is a small economically homogeneous and affinity group of rural poor voluntarily coming together. Its basic idea can be demonstrated through the following chart:

CHART 1

Self Help Group



With over 11 million poor households accessing banking services including micro-credit through their 700 thousand Self-Help Groups (SHGs), the SHG-bank linkage programme led by NABARD in India is now the largest and the fastest growing micro-Finance programme of the world in terms of its outreach.Now, over 2800 NGOs and 30,000 branches of 500 banks are associated with the programme making it the most cost effective microFinance initiative.

Considering the need for up scaling the micro-Finance interventions in the country, has been set up in NABARD through initial contributions aggregating Rs 100 crore from RBI, 11 Public Sector Commercial Banks and NABARD. NABARD has further contributed Rs 6 crore from its surplus to the fund.

During fiscal ending March 2003, cumulative number of 7,17,360 SHGs were provided credit of Rs. 10,233 million by the banks under the SHG-Bank linkage programme. Against this, the banks claimed Rs. 6,223 million as refinance from NABARD. More than 12 million poor households have gained access to the formal banking system through the SHG- bank linkage programme till March 2003, in which more than 90 percent SHGs are exclusively women members. SHG-bank linkage programme till March 2003 covered over 500 districts jointly in 30 States and UTs. NABARD, upto 31 March 2003, provided Rs. 180 million Revolving Fund Assistance (RFA) to 29 NGOs, SHG Federations and credit unions for on-lending to SHGs and to build their financial intermediation capacities. The cumulative position of bank loans disbursed and the refinance support provided by the National Bank is given in Table 4.1.

TABLE 4.1

SHG-Bank Linkage Programme-Cumulative Progress (AS on 31 March 2003)

Year	SHGs Refinanced (No.)	Bank Loans Disbursed (Rs. Crore)	Refinance Disbursed (Rs. Crore)
1992-93	225	0.29	0.27
1993-94	620	0.65	0.46
1994-95	2,122	2.44	2.13
1995-96	4,757	6.06	5.66
1996-97	8,598	11.84	10.65
1997-98	14,317	23.76	21.39
1998-99	32,995	57.07	52.06
1999-00	94,645	192.98	150.13
2000-01	2,13,213	480.87	400.74
2001-02	3,40,131	1,026.34	796.47
2002-03	4,93,634	2,048.67	1,418.80

Source: Annual report of NABARD 2002-03

During the year 2003-04 2.25 lakh new SHGs were provided with bank loan with cumulative figure of 9.42 lakh and loans of Rs. 1191.71 crore (cumulative Rs.3,240.38 crore) were disbursed by banks. NABARD provided refinance of Rs.705.95 crore; (cumulative Rs. 2124.75 crore). Bank credit has reached to more than 14 million poor families & over 31,000 bank branches of 504 banks participated in the programme. 255 NGOs were sanctioned grant assistance of Rs.4.74 crore for promotion and linkage of 37,268 SHGs and cumulatively, 785 NGOs were sanctioned Rs.15.12 Crore for promotion and linkage of 1,15,279 SHGs in the year 2003-04.

Broadly three different models have emerged:

Mode I : Banks as Self Help Promoting Institutions (SHPIs)

Banks → Promote Train and Provide Credit Support → SHGs

In this model, the bank itself acts as a Self Help Group Promoting Institutions (SHPIs). It takes initiatives in forming the groups, nurtures them over a period of time and then provides credit to them after satisfying itself about their maturity to absorb credit. Upto march 2002, 16% of the total number of SHGs financed were from this category . This showed an increase of 3% over the position upto March 2001, reflecting an increased role of banks in promoting and nuturing SHGs.

Model -II -: NGOs as SHPIs

NGOs → Promotion, Training & Helping in Linkage with Banks → SHGs ← Banks

In this model, groups are formed by NGOs (in most of the cases) or by government agencies. The groups are trained by these agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model, with NGOs playing a major role. This model has also been popular and more acceptable to banks. A share with 75% of the total number of SHGs was financed upto march 2002.

Model III : Bank – NGO-mFI-SHG-Members

NGOs → Promote, Train and Provide Credit Support → SHGs → Banks

Due to various reasons, banks in some areas are not in a position to even finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and micro-Finance intermediaries. First, they promote the groups, nurture and train them and then approach banks for bulk loans for on-lending to the SHGs. The share of cumulative number of SHGs linked under this model upto March 2002 continued to be relatively small at 9% but in years to come, this is expected to become a major delivery mode .

The SHG-Bank Linkage Programme has emerged as the largest microfinance programme in the world. Over 17,000 bank branches of 44 commercial banks, 191 Regional Rural Banks (RRBs) and 209 DCCBs are involved in financing these groups. Repayments by members to SHGs have been excellent and on-time repayments have hovered around 98 per cent. Similarly, the on-time laon repayments by SHGs to banks are over 95 per cent. The key interventions designed, implemented and funded by NABARD included massive human capital development exercise aimed at awareness building and training of banks. NGOs, government development agencies and SHGs. (ii) supporting large scale promotion of quality SHGs. (iii) documentation, monitoring and dissemination of the progress and best practices. Under its various programmes, by now, 49,700 banks officials, 10,000 NGOs staff, 14,000 staff of government agencies and 130,000 SHG leaders have been covered. For leveraging larger loans, NABARD continued to extent 100 per cent refinance to banks at attractive terms. A micro Finance Development Fund (mFDF) was constituted in NABARD with initial contribution of Rs. 40 crore brought in by NABARD on 31 March 2000 followed by Rs. 6 crore subsequent contribution. The Reserve Bank of India contributed Rs. 40 crore to the fund in 2000-01. Further, eleven commercial banks have contributed Rs. 20 crore to the fund in varying proportions. As on 31 March 2003, the microFinance Development Fund (mFDF) has received contributions from NABARD (Rs. 46 crore), RBI (Rs. 40 crore), and 11 commercial banks (Rs. 20 crore). In addition, to facilitate graduation of the poor to micro enterprise stage, NABARD supports programmes at skill upgradation, enterpreneurship development and marketing of the produce.

A study made by NABARD, which covered 560 SHG member households from 223 SHGs, spread over 11 states, revealed that the programme has achieved positive results in socio-economic terms. There have been perceptible and wholesome changes in the living standards of the SHG member in terms of ownership of assets, increase in saving and borrowing capacity, investments for income generation and income levels. The involvement in the group significantly contributed in improving the self-confidence of members. The feeling of self-worth and communication with others improved after association with the SHGs. The members were more assertive in confronting social evils and problem situations, are clear indication of growing empowerment. [3]

[3] Y.C. Nanda, The Hindu Survey of Indian Industry 2003, "NABARD's Catalytic Role," p. 50

In a recent article on micro finance in the newspaper "Business Line" it was stated that the effective cost of micro lending was 24-26 per cent, based on a nominal lending rate of 15-18 per cent. This is high cost by any standard. This cost may not be a deterrent for the affluent farmer. However, as a tool of economic development the role of micro credit should be seen as a solution to making available affordable loans to the rural poor, in a way that is a winning proposition for both the lender and borrower. The cost of credit is a very key factor in this scheme and should not get underplayed. It is important to realise that interest rates in micro finance will have to be less than market rate, and this is one of the important distinguishing factors of this model, compared to other forms of lending.

The micro-Finance institutions should be free to raise balance funds required, as any other commercial entity, from the market in any cost efficient manner. Unfortunately, the present regulatory framework does not support the micro-Finance institutions borrowings and this needs to be changed. Being a financial institution, funds management and low cost of capital are key issues and these should be dealt professionally. Fiscal concessions and exemptions can also play a role in reducing the cost of money to the micro-Finance institutions.

In order to ensure the success of this model, an integrated approach of lending is necessary. Besides capital, rural India needs several other complementing services such as education, health care, drinking water, sanitation, public transportation, and so on. If the SHGs are provided all these facilities, through an integrated programme, it will constitute a bonding of affinity that ensures discipline and commitment to the rules by all members, including prompt repayment of loans.[4]

RURAL PROMOTION CORPUS FUND (RPCF)

The Rural Promotion Corpus Fund (RPCF) established in the National Bank in April 1995, with a corpus of Rs.61.81 crore as a permanent fund under the aegis of Swiss Agency for Development Cooperation (SDC), aimed at promoting investments in the rural non-farm sector (RNFS). The National Bank has been utilizing the interest accrued in this fund for carrying out various developmental and promotional activities for supporting tiny, cottage and village industries for creating employment opportunities in rural areas. During 2002-03 the total finance assistance disbursed under the RPCF was Rs. 7.24 crore taking the cumulative disbursements to Rs. 41.36crore. The promotional efforts towards some of the important activities are briefly discussed below.

(i) District Rural Industries Project

District Rural Industries Project (DRIP) was launched in 1993-94 on a pilot basis with the object of generating sustainable employment opportunities by providing adequate credit support together with promotional measures. All agencies involved in promotion of rural industrialization, viz., DRDA, DIC, KVIC, branches of commercial banks, RRBs, Cooperative banks, NGOs, etc., are brought together on a common platform so as to prepare a

[4] S. Natrajan, Ibid. p. 11

well-coordinated action plan by dovetailing their schemes/efforts. The districts selected at the pilot stage were Ganjam (Orissa), Kurnool (Andhra Pradesh), Gwalior (Madhya Pradesh), Sawai Madhopur (Rajasthan) and Sabarkanta (Gujrat). Due to the success of these pilot programmes, the National Bank extended the project to 100 more districts in a phased manner for a period of 5 years. In the year 2001-02, the programme was extended to 20 districts, taking total 43 districts, which was implemented further in 20 more districts. Out of these 20 districts, the project was launched in 18 districts till March 2003, increasing the total number of project to 61.

(ii) Trainers' Training Programme on GOPP

Goal Oriented Project Planning (GOPP) workshop based on 'Zielorientierte Project Pannung (Objective Oriented Project Planning)' (ZOPP) methodology developed by GTZ, Germany has been used in the DRIP district to finalize district action plans. In view of increasing number of DRIP districts and to adequately equip the faculty members of Bank's Training Establishments (BIRD, NBSC, RTCs), a Trainers' Training Programme on GOPP was conducted in 2002 for 16 officials with the help of facilitators drawn from GTZ, Germany.

(iii) Strengthening of Rural Haats

A scheme for providing limited grant assistance to Panchayati Raj Institutions (PRIs) for construction of rural haats, in order to improve the rural marketing system has been introduced, particularly for DRIP districts. The National Bank extended grant assistance in DRIP districts to set up rural haats to the extent of 80 per cent of the project cost or maximum of Rs. 3 lakh for providing/improving infrastructural facilities. This scheme also provides for soft loan assistance up to Rs. 2 lakh through Panchayati Raj Institutions (PRIs)/Primary Agricultural Co-Operative Societies (PACS) for creating of some additional facilities/permanent shops with shutters. The National Bank sanctioned assistance of Rs. 19.54 lakh for development of 11 rural haats till March 2003.

(iv) Development of Rural Clusters

The National Progr mme for Rural Industralisation (NPRI) launched by the GOI in 1999 under the control of the National Bank has developed 50 rural clusters in a phased manner in 1999 to 2004. So far, the Bank has identified 51 clusters spread over 18 states and has launched the development programme in 35 clusters, including the 15 selected ones in the earlier years. Sanction of financial assistance till March 2003 amounted to Rs. 66.69 lakh. The activities covered under these clusters were mainly artisan-based, including handicrafts and handlooms.

(v) Mother Units/Common Services Centres

This concept was evolved by the National Bank to support sub-contacting and ancilliarisation by major industries for setting-up of support units to benefit the decentralized units in rural areas. During 2002-03, one Mother Unit Project in 'mango pickle making' involving grant assistance of Rs. 9.88 lakh was sanctioned to Vasundhara Vikas Vanwadi Jalsinchan Vikas Sahakari Mandali

Limited, a society of farmers under Wadi project in Valsad district, Gujarat. With the disbursement of Rs. 0.75 lakh during the year 2002-03, the cumulative sanctioned and disbursements amounted to Rs. 3.28 crore and Rs. 1.79 crore, respectively, involving 29 mother units.

(vi) Training-cum-Production Centres

Established by NABARD, the main objective of Training-cum-Production Centres (TPCs) is to impart skills and technology to artisans/entrepreneurs for self-employment with comprehensive backward and forward linkage support such as, raw material supply, common facilities, quality control, marketing under common brand name, etc. In the year 2002-03 TPC on Micro Cement Roofing Tiles, involving an amount of Rs. 0.94 lakh was sanctioned to Zilla Panchayat, Ujjain. With this, the total number of TPCs sanctioned increased up to 23, with the cumulative sanctions and disbursements amounted to Rs. 4.35 crore and Rs. 2.86 crore, respectively.

(vii) Rural Entreprenuership Development Programme (REDP)

REDP is one of the important NFS promotional programmes supported by Nabard for diversification of village industries with a focus on creating sustainable employment and income opportunities in a cost effective manner for the benefit of educated unemployed rural youth .NABARD has been, for more than one decade now, supporting selected voluntary agencies/non-governmental organisations (VAs/NGOs) for the implemention of REDPs. As a corporate strategy, the National Bank decided to train one lakh rural youths and potential entrepreneurs under Rural Entrepreneurship Development Programmes (REDPs) during 1999-2004. To achieve this goal, the programme was institutionalized and Rural Development and Self Employment types of training institutes and select VAs/NGOs were associated. During the year 2003-04, 1017 REDPs were supported with an aggregate grant of Rs. 3.67 crore to rural youths, thereby taking the cumulative number of REDPs supported to 2,425 at the end of the 5th year of the programme. The National Bank till 2003-04 has supported a total number of 5,000 REDPs covering 1,50,000 unemployed rural youths since the commencement of the programme in 1990.

(viii) Skill Upgradation of Handloom Weavers

Handloom sector occupies a significant place in our rural economy in terms of potential for employment and income generation. However, this sector has been facing problems of marketing of produce on account of obsolete technology and conventional designs used by majority of weavers. In spite of these problems, the sector has been enjoying better consumer preference and has high potential for capturing both domestic and global markets. Keeping this in view, the National Bank, during 2002-03, formulated a scheme; viz., 'Skill Upgradation and Design Development for Handloom Weavers' (SUDHA) for improving the quality of handloom products, so as to enhance their marketability. Under this scheme, a one-time grant assistance of up to Rs. Five lakh per project, had been envisaged to eligible institutions like Apex Handloom Cooperative Marketing Federation, Apex Regional Weavers' Cooperative Societies, registered cooperative societies, Voluntary Associations, NGOs, promotional agencies, etc. The actual grant is decided on a case-to-case basis, depending on the nature of activity. Activities such as, conducting market survey, design development, tra.ning for skill upgradation, hiring of consultants or appointment of experts for a short duration, quality control, special marketing efforts, exposure visits, conducting orientation/sensitization workshops, etc., have been covered under this scheme.[5]

ORGANISATION DEVELOPMENT INTERVENTION (ODI)

(a) Organisation Development Intervention for Cooperative

Government of India in the first phase initiated the process of Organisation Development Intervention (ODI) in 49 RRBs selected for restructuring with financial support from Swiss Agency for Development and Cooperation (SDC). Subsequently, it was decided to cover all the State Cooperative Banks (SCBs), State Cooperative Agriculture & Rural Development Banks (SCARDBs) and District Central Cooperative Banks (DCCBs) under the ODI programme in a phased manner w.e.f. 1998-99 with the financial assistance from Cooperative Development Fund (CDF). One hundred and thirty four Cooperative banks till 2002-03 have been covered under the initial phase of ODI. These ODIs have been successful and instrumental in bringing about a perceptible paradigm shift and change in the mindset and attitude of both the staff and the management towards business issues as well as their concern for the bank's development.

[5] Annual Report of Nabard, 2002-03, p. 85-87

(b) Organisation Development and other support under NB-SDC-HID Project

Impressed by the positive results of Organisation Development Intervention programme in RRBs and Cooperative Banks, Swiss Agency for Development and Cooperation (SDC) agreed to finance ODIs in 120 RRBs and 20 Cooperative Banks (on pilot basis) under "Human and Institutional Development Partnership in Rural Finance with NABARD". These ODIs are being conducted in a phased manner from 2000-01 to 2004-05 with the involvement of Regional Offices of NABARD, National Bank Staff College, Lucknow, Bankers Institute for Rural Development, Lucknow, Regional Training Colleges at Bolpur and Mangalore and a few selected Sponsor Banks. During the year 2000-01, ODIs in 18 RRBs and 11 Cooperative Banks were conducted and in the year 2001-02, ODIs in 48 RRBs and 6 Cooperative Banks were conducted. In the year 2002-03, ODIs in 42 RRBs (Phase I) and 13 RRBs (Phase II) were conducted. Besides, conduct of ODI Phase-I, Phase-II and follow-up visit to the selected RRBs/DCCBs, exposure visits by 117 selected officers of RRBs were made. RRBs/DCCBs having outstanding performance allow the officers to learn the best practices of successful RRBs/DCCBs and replicate the same in their work situation. Exposure visits by 42 RRB personnel /DCCBs had also been made under the project during year 2002-03. To initiate computerisation in RRBs, 145 RRBs were given computers with peripherals under NB-SDC-Project. The officers of RRBs and DCCBs were also imparted training at Training Centres established by NABARD viz; RTC, Bolpur, RTC, Mangalore and BIRD, Lucknow.

IMPLEMENTATION OF DEVELOPMENT ACTION PLAN (DAP)

In order to strengthen Cooperative Credit Institutions both in Short-Term and Long-Term Structures as viable units on a sustainable basis, NABARD had introduced a mechanism of DAP/MoU aiming at institution specific measures in 1994. The performance obligations arising out of DAP formed the basis of the Memorandum of Understanding (MoU). The cooperative banks, throughout the country prepared the base DAPs and executed the base level MoUs for 5 years ended in March 2000. The first phase of DAP/MoU (1994-2000) concluded in March 2000. Thereafter second phase was started for 3 years i.e. 2001-03.The process of preparation of Bank-specific Development Action Plans (DAPs) introduced for RRBs during the year 1994-95 continued during the year 2002-03 for improving the performance of RRBs in a specified time frame. For ensuring performance according to these plans, RRBs have signed Memorandum of Understanding (MoU) with their sponsor banks. During 2002-03, 23 out of 30 SCBs executed the base level MoUs with the National Bank and respective state governments. In all, 18 SCBs executed annual MoUs for 2002-03. In March 2003 , 14 out of 20 SCARDBs executed the base level MoUs with the National Bank and respective governments .Twelve SCARDBs executed annual MoUs for the year 2002-03.The mechanism of DAP/MoU has helped in building appreciation and awareness for strategic planning facilitating, in turn, sustainable viability at all levels. The feedback received indicates that there was positive impact on the performance of banks as a result of introduction of DAP/MoU. The DAP planning process, as an internal strategy for corporate planning, had facilitated in creating an awareness in the cooperative banking structure and RRBs about the need for strategic planning for corporate success.

RURAL INFRASTRUCTURE DEVELOPMENT FUND (RIDF)

Rural Infrastructure Development Fund (RIDF) was set up in 1995-96 to complete on-going projects in minor, medium and major irrigation along with food protection, watershed management and soil conservation. In addition to these activities, the other activities that have been covered subsequently are rural roads & bridges, harvesting of rain water and construction of terminal rural markets, fish jetties & cold storages, primary school buildings, primary health centres, village haats, forest management, minihydel and system improvement projects under power sector, rural drinking water schemes, citizen information centres under IT sector etc.

RIDF-I was launched in 1995-96 with an initial corpus of Rs.2000 crore through contributions by way of deposits from domestic commercial banks both from public and private sector having shortfall in the agricultural lending subject to a maximum of 1.5% of the shortfall of the net bank credit to agriculture. Since 1996-97 i.e. RIDF-II, sources of deposits from commercial banks have been broad-based by including shortfall either in direct finance to agriculture and/or shortfall in priority sector lending. Cumulative sanctions under RIDF I to IX aggregated Rs.34,701.83 crore. The total disbursements as on 31 March 2003 were Rs.17,145 crore and RIDF outstandings were Rs.13,062 crore. The year-wise sanctions have been given in the table 4.2. State Governments, Panchayat Raj Institutions (PRIs), Non-Governmental

Organisations, Self-Help Groups, etc. are eligible to borrow from RIDF.

Four sub-sectors has been identified for linking RIDF sanctions to reforms process.

- Agriculture Marketing
- Power Supply for Agriculture & Rural Areas
- Irrigation & Water Supply, and
- Tribal Development.

In the budget 2003-04 it has been stated that a decision was being taken to close the RIDF & establish, in its place, another fund, the Lok Nayak Jai Prakash Narayan Fund (LNJPNF) by the Government of India towards the end of the financial year 2003-04, the sanctioning process under RIDF IX was to be closed before 31 March 2004. Out of the Lok Nayak Jai Prakash Narayan Fund, (LNJPNF)/Agriculture Infrastructure and Credit Fund (AICF) of Rs.50,000 crore was supposed to be operationalised by NABARD, Government of India approved the allocation of Rs.30,000 crore towards the infrastructure component which was decided to be utilised for sanction of loans to State Governments till a period of 3 years, ie., upto 31 March 2007. NABARD also communicated the salient features of LNJPNF to State Governments and started sanctioning process under the supposed newly created Fund with sanctions totalling Rs.176 crore to 9 State Governments.

TABLE 4.2

Year-wise Disbursements under RIDF (As on 31 March 2003)

(Rs crore)

Year	RIDF I	RIDF II	RIDF III	RIDF IV	RIDF V	RIDF VI	RIDF VII	RIDF VIII	Total
1995-96	387.34	-	-	-	-	-	-	-	387.34
1996-97	795.47	291.61	-	-	-	-	-	-	1,087.08
1997-98	250.14	542.24	216.65	-	-	-	-	-	1,009.03
1998-99	109.19	602.57	469.07	132.29	-	-	-	-	1,313.12
1999-00	149.34	440.46	726.78	543.25	418.04	-	-	-	2,277.87
2000-01	50.98	215.50	472.66	706.67	771.41	959.63	-	-	3,176.85
2001-02	18.25	157.52	297.94	480.80	779.86	939.45	1,116.55	-	3,790.37
2002-03	0.16	123.78	193.93	297.76	532.88	889.30	939.18	1,126.43	4,103.42
Total	**1,760.87**	**2,373.68**	**2,377.03**	**2,160.77**	**2,502.19**	**2,788.38**	**2,055.73**	**1,126.43**	**17,145.08**

Source: Annual Report of NABARD 2002-03

Thus, the total loans sanctioned during the year 2003-04 to State Governments for rural infrastructure projects aggregated Rs.5,613.51 crore (i.e. Rs.5437.51 crore under RIDF-IX and Rs.176 crore under AICF). But many state governments and many honorable members opposed the closure of RIDF. In 2003-04 budget again it has been decided to revive the RIDF. It's guidelines have been revived and a corpus of Rs.8,000 crore has been provided for RIDF during 2004-05.[6] It can be taken that reviving of RIDF, which was discontinued last year, will give a fillip to infrastructure development in the rural areas.[7]

Infrastructure is a critical input for agricultural, industrial and overall economic development of the rural areas. It also provides basic amenities, which improve the quality of life. However, infrastructure-oriented projects involve huge initial investments, long gestation periods, high incremental capital output ratio, high risk and low rate of return on investment. All these factors, as such, make private sector entry difficult. Under the given circumstances, infrastructure services have been historically provided by the public sector. Of late, there is a growing realisation by the Government to support projects both in public and private sector to stimulate pace of growth and development. Systematic development of rural roads i.e. roads which connect villages received fillip during the Fifth Five Year Plan period when construction of these roads was made a component of the Minimum Needs Programme. The Ninth Five Year Plan envisaged covering of 85 percent of rural population with rural roads and

[6] The Economic Times, "Agri is the Culture of the Times", New Delhi, 9, July, 2004, p. 17

black topping of these rural roads in villages with population of 1500 and above. Rural Roads, particularly rural feeder roads are considered basic to the whole process of rural development. Farm-to-market roads promote commercialization of agriculture, raise productive capacity and increase social mobility. For an effective farming system where a farmer can make a round trip to a market centre, agriculture extension services, farm production and proper credit investment, feeder roads are crucial.

KISAAN CREDIT CARD SCHEME

The instrument of Kisaan Credit Card (KCC) is one of the key products developed to improve the farmers accessibility to bank credit, simplogy credit delivery mechanism and credit delivery mechanism and provide more flexibility in the use of credit. Model scheme on KCC was formulated and implemented by NABARD in 1998-99, in all the states and Union Territories. As a pioneering credit delivery innovation, Kisaan Credit Card Scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible, hassle free and cost effective manner.[8]

Advantages to farmers from Kisaan Credit Card Scheme are that they get adequate and timely credit, full year's credit requirement of the borrower is taken care of, paper work is minimum and simplification of documentation for drawal of funds, assured availability of credit at any time enabling reduced interest

[7] Pradeep Kashyap, Business Line, "A definite attempt of redress neglect to agriculture, Vol. 11 No. 19, 10 July 2004, New Delhi, p. 120

[8] Kisan Credit Card Scheme, Pamphlet, 2003

burden for the farmer, sanction of the facility of credit and avoidance of uncertainty involved in accessing credit on a year to year basis for 3 years subject to annual review and satisfactory operations and provision for enhancement, flexibility of drawings cash and buy inputs from a branch other than the issuing branch at the discretion of the bank, availability of life cover/disability insurance at very low premium in case the farmer meets with accident are the merits provided to farmers.

The Bank has introduced the Personal Accident Insurance Scheme under the Kisaan Credit Card Scheme (KCC). NABARD has also prepared a Model Scheme for providing financial assistance for publicity campaign activities of Cooperative Banks under KCC Scheme under Cooperative Development Fund (CDF) with a view to speed up the pace of implementation of KCC Scheme. Agency-wise issue of cards by all banks till 2002-03 since inception of Scheme is shown in the table 4.3.

Table 4.3

Agency-wise KC Cards issued upto 31 March 2003 (since inception) (No. of cards)

Year	Cooperative Banks	RRBs	Commercial Banks	Total
1998-99	155353	6421	445451	607225
1999-00	3594869	173301	1365911	5134081
2000-01	5614445	648324	2389588	8652357
2001-02	5435859	833629	3071046	9340534
2002-03	4578923	963950	2067219*	7610092
Total	**19379449**	**2625625**	**9339215**	**31344289**

(*) data for commercial banks upto 31 December 2002
Source: Annual Report of NABARD 2002-03

Since introduction of the KCC Scheme in 1998 CBs, Cooperative Banks and RRBs have together issued 3.85 crore Kisan Credit Cards upto January 2004. (cooperatives 2.29 crore (59%), RRBs 37 lakh (10%) and CBs 1.20 crore (31%). As against overall target of 87 lakh cards for the year 2003-04 as many as 65.47 lakh cards were issued upto January 2004 and the target is likely to be met. The total credit sanctioned to the card holders during 2003-04 is Rs.8864 crore while the cumulative sanctions since inception stood at Rs.86965 crore. Joint studies covering 54 districts in 17 states and one Union Territories (UT) were undertaken by the National Bank along with the financing banks to assess that the KCC scheme was well received both by farmers and bankers. And the flexibility in operations has resulted in improved loan recoveries for many banks. Some ground level constraints were also observed. The National Bank has already taken up the issues with the banks and state governments concerned to remove these constraints.

The major findings of studies done in 2002-03 on KCC Scheme indicate that the scheme is widely accepted among farmers and bankers, credit is provided timely and adequately, loaning procedure is simple, repeat processing of loan proposals is eliminated, operations are flexible, borrowers are free to purchase inputs from any source of their choice, withdrawals and repayments can be at any time, card is a symbol of prestige in the farmers' community, credit to farmers is for 3 years with provision for enhancement in credit limit at the time of renewal, recovery of loans through more frequent banker-borrower contacts.

The demerits which study has revealed were that selective approach is being adopted in identifying beneficiaries, some banks are reluctant to extend KCC facility in mono-crop areas, cash disbursement is done only at DCCB branch level, in some states involving travel of long distances for drawal of cash, service charges levied by some of the commercial banks/RRBs for issue of KC cards to farmers is costly (Rs. 25/- to Rs. 250/- in some states), with stamp duty by some of the state governments for issuing loans under KCCs, which is otherwise not being levied for normal crop loans.[9] Till March 2003, 3.13 crore KCCs have been issued together by Public Sector banks, regional Rural Banks and Cooperative Banks.[10] 1.94 crore by rural cooperative banks & the remaining by RRBs and SCBs. Here the cooperative banks have taken a lead. To encourage KCCs Nabard is pushing the RRBs and the cooperative banks, while RBI is pushing the SCBs to issue KCCs. In order to motivate the banks and to support their efforts to generate greater publicity for popularising KCC scheme, NABARD has been providing financial assistance to Cooperative Banks and RRBs with an allocation of Rs. 6 crore and Rs. 1.1.crore respectively. Nabard is also taking the help of the rural post offices to create wider publicity for the scheme. It has launched postcards bearing a message on KCC.[11] NABARD has launched 10 lakh Meghdoot Post Cards with a message of KCC to be distributed through rural post offices all over India. This card costs a buyer only 25 paise as against normal post card @ 50 paise.Similar Cards should be issued for artisans, weavers & fishermen to provide them

[9] Annual Report 2001-02

[10] The Financial Express, "Over 3 crore Kissan Credit Cards Issued" Vol. XXIX NO. 145, 16, August 2003, New Delhi, P. 8

[11] Alok Majumbadar, Business India, "Breaking New Ground, "Ashok H. Advani, Publisher, Bombay, June 9-22, 2003, p. 64

credit at 9 per cent in tandem with a focused insurance scheme for them. [12]

POTENTIAL LINKED CREDIT PLANS (PLPS)

NABARD started PLPs with district as a unit of planning, from the year 1988-89. These plans give an indication of potential available for credit supported investment in agriculture and other rural development activities. The PLPs also indicate existing infrastructure gaps, anticipated infrastructure development by way of public investment during the year that would facilitate credit absorption, developmental programmes of government agencies that require credit support, a review of performance of different credit agencies in the last 3-5 years etc. This information is furnished block-wise to take care of micro region variations.

These PLPs are made available to all the banking institutions in the districts before their planning process starts as also to government agencies. The ground level bank branches prepare their annual credit plans keeping in view the potential. The government agencies are also benefited from the PLPs in planning public investments in infrastructure development. Thus the PLPs facilitate improving the productivity of credit supported private investment.

[12] The Financial Express, "Over 3 crore Kissan Credit Cards Issued" Vol. XXIX NO. 145, 16, August 2003, New Delhi, P. 8

WATERSHED DEVELOPMENT FUND (WDF)

Created in the National Bank in pursuance of proposals in the Union Budget 1999-2000 with an initial corpus of Rs.100 crore equally contributed by the National Bank and GOI. The objective of WDF is to spread the message of participatory watershed development throughout the country through active involvement of Gram Panchayats, Local Self Help Group & NGOs. It has been extended to 100 districts in a phased manner. The programme is implemented by NABARD with the consultation of Government of India (GOI). The guidelines are as that the NGOs should be approached to act, as the role of a catalytic facilitator; the Village Community and the NGO should implement the development of the selected micro-watershed to be proceeded by the successful demonstration of capacity The Steering Committees involving state governments, NGOs and the National Bank for monitoring the project providing guidance, review and policy formulation has also been set up.[13]

Presently a total of 220 Watershed projects involving grant of Rs. 10.59 crores have been sanctioned under Capacity Building in 10 states. Of this 35 projects (Rs.1.50 crores) are under grant component and 187 projects (Rs.9.09 crore) are under loan component of Watershed Development Fund (WDF). Four projects (Two from Gujarat and two from Jharkhand) have entered in full implementation phase and have been sanctioned a grant of Rs.239.89 lakhs. A total of 46 projects have been sanctioned a total grant of Rs. 47.33 lakhs for preparation of project feasibility report.

[13] Annual Report of Nabard, 1999-2000, p. 139

Projects are being implemented in two phases, viz., the capacity building phase (CBP) and full implementation phase (FIP). During 2002-03, for 97 Watershed projects a grant of Rs.4.75 crore was sanctioned under CBP. The cumulative number of projects sanctioned under CBP till march 2003 went up to 222, involving a grant assistance of Rs.5.18 crore to the implementing agencies. These projects would cover about 0.20-lakh hectare during CBP and will eventually cover a total area of 2.08-lakh hectare when they enter FIP. An amount of Rs.6.75 crores has been disbursed so far under Watershed Development Programme. Among these are:-

Indo-German Watershed Development Programme (IGWDP)

On successful implementation of Phase I of the programme, KfW, Germany has signed a separate agreement in April 2000 to provide a further grant assistance of DM 25 M. under Phase II of Indo-German Watershed Development Programme. Phase II is operative from April 2000 to December 2005.

During a decade of its implementation, about one lakh hectares of land has already been treated with the involvement of 59 NGOs and the total disbursements under the programme is more than Rs. 67.5 crore as on 31 March 2003 for 109 watershed projects in 21 districts of Maharashtra. The impact evaluation studies of the project areas have shown increase in water table, higher productivity as also rise in income levels of the community. Farmers have crossed over to high yielding varieties of crops, vegetable cultivation, etc. The landless have benefited through activities like dairy farming and also due to availability of employment locally. Besides improvement in health and hygiene, the attendance in schools has also registered an increase. Andhra Pradesh has been signed for implementation in the districts of Medak, Warangal, Karimnagar and subsequently in Adilabad with a total outlay of Euro 8.69 million. Appraisal of IGWDP Gujarat has been completed, for implementation in the districts of Dahod, Panchmahals and Vadadora with an outlay of Euro 9.2 million, and also appraisal of Rajasthan has been completed, for implementation in the districts of Udaipur, Dungapur, Banswara and Chittorgarh with an outlay of Euro 11 Million.

SWARNAJAYANTI GRAM SWAROZGAR YOJANA (SGSY)

SGSY, formed by restructuring on going self-employment programmes, viz., IRDP, TRYSEM, DWCRA, ETC came under implementation from 01 April 1999. This programme envisages formation of SGSY Groups and their linkage with the banks. Individuals as also SGSY group members, below poverty line are assisted under this programme. During 2002-03 the disbursement of refinance under SGSY including the refinance disbursed by the National Bank under erstwhile IRDP, DWRCA, etc., was Rs.401.29 crore and constituted 54 per cent of the total disbursements. Under this a Swarojgar Credit Card (SCC) Scheme has been started because availability of adequate and timely financial resources is one of the most important factors for the success of any venture. In almost all cases, the entrepreneurs depend on external sources for financial support and the formal financial sector including the banks provide the needed resources by way of credit. The banking scenario in the Country has been fast changing. The process of financial sector reforms highlighted the need for innovative credit interventions from financial institutions. Any such innovation should comprise timely credit in adequate quantity with operational flexibility to the borrowers and insurance protection. Various credit delivery innovations in the form of SHG-Bank Linkage Programme for making financial services available to the poor, Kisan Credit Card Scheme for meeting the production credit needs of the farmers, Laghu Udyami Credit Card Scheme for SSI Sector have been introduced. However, tiny, cottage and village industries sectors and self-employed persons were left out from any credit card scheme. Majority of the artisans, handloom weavers, handicraftsmen, fishermen, self employed persons, etc whose credit requirement is of the order of Rs 25000/ are to be given preferential treatment for easy access to credit. As far as small borrowers are concerned, their credit needs are for investment, production and consumption purposes. If all types of their requirements are met from one source with due flexibility, the venture undertaken by them could be successful. In order to meet their requirements, a new credit card scheme viz. Swarojgar Credit Card Scheme was launched on 15 August 2003.Consequently, upon the announcement of the introduction of a suitable credit card system for artisans and other small entrepreneurs, a special meeting was held in 2003 in which it was decided to implement a special credit card scheme viz. Swarojgar Credit Card (SCC) Scheme benefiting the rural artisans and other small entrepreneurs. The salient feature of the scheme is that it takes care of investment and working capital requirements of a wide range of small borrowers especially in the non-farm and service sectors. Accordingly, NABARD has formulated a model scheme requested the banks to introduce a suitable Swarojgar Credit Card

Scheme on the lines of the model scheme. Scheme aims at providing adequate and timely credit i.e. working capital/ or block capital or both to small artisans, handloom weavers, service sector, fishermen, self employed persons, rickshaw owners, other micro-entrepreneurs, etc from the banking system in a flexible, hassle free and cost effective manner. The facility may also include a reasonable component for consumption needs. Till 2003-04 a total of about 16500 cards were issued making the credit available to the tune of Rs.36 crore to the small entrepreneurs in the country.

SCHEME FOR SETTING UP OF AGRICLINIC AND AGRIBUSINESS CENTRES.

National Bank in consultation with the Ministry of Agriculture, GOI and select banks formulated a scheme for financing Agriculture Graduates for setting up Agriclinics and Agribusiness Centres in 2001-02. The scheme aims at supplementing the existing extension network in the public sector to accelerate the process of technology transfer, in providing inputs and other services to the farmers and also offering self–employment opportunities to agriculture graduates. Small Farmers Agri-business consortium (SFAC) has been assigned the work of giving publicity to the scheme and also for arranging training programmes for the projective entrepreneurs. SFAC has identified 19 institutes in different states for conducting training programmes. Out of, 2405 agriculture graduates trained in the first cycle in 19 states, 413 have established Agri-clinics and Agri-business Centres in different parts of the country. National Bank has prepared model project profiles for few activities indicating the estimated cost and income streams. The banks have the freedom to select the borrowers/entrepreneurs and the activity depending on the potential of the area subject to technical feasibility and financial viability of the proposals.

REFINANCE FOR RURAL HOUSING ACTIVITY

The housing sector is one of the prime engines of economic growth, as it satisfies the social needs, generates employment and stimulates economy with its spillover effects. Housing in the rural areas both of agriculturists and non-agriculturists, combines the business as well as dwelling needs and thereby leads to overall rural development.

With a view to supplementing the efforts of Government of India, State Governments, National Housing Bank and Banking sector in augmenting the resources for the rural housing segment, NABARD included rural housing as an eligible activity for extension of refinance (investment credit) to the eligible banks since 01 April, 2001. The broad terms and conditions for its refinance scheme are that refinance is provided to all eligible Banks for financing extended by them to housing projects in the 'rural'* areas only. Refinance is available under Automatic Refinance Facility (ARF) subject to a ceiling of Rs. 5 lakh of loan amount per housing unit.

Eligible borrowers are individuals, co-operative Housing Societies, Public Bodies, Housing Boards/ Housing development Authorities/ Improvement Trusts, local Bodies, voluntary agencies

* Rural area means the area comprised in any village and includes the area comprised in any town, the population of which does not exceed 50000 or such other figure as the RBI may specify from time to time.

and NGOs, housing Finance Companies registered with National Housing Bank (NHB). This refinance is eligible for construction of new as well as repairs/renovation of existing houses in rural areas. Repayment period, for new houses is not more than 15 years and for repairs/renovation-not more than 7 years. The moratorium is not more than 18 months from the date of disbursement of first installment.[14] During 2002-03 the amount of refinance disbursed under Rural Housing Activity was Rs.769.53 crore which constituted 10.4 per cent of the total disbursements .

AGRI EXPORT ZONE

Agri Export Zone is concerned with A to Z of agri-exports. The emphasis is on partnership among various agencies / systems and convergence of interventions of various agencies like Agriculture and Processed Food product and Export Development Authority (APEDA), Ministry of Food Processing Industries (MFPI), National Horticulture Board (NHB) etc. The main focus is on increasing exports of identified commodities with economies of scale for the benefit of all concerned. In AEZ, a package is offered to facilitate exports and induce private sector investment. The GOI has, so far, identified 45 Agri-Export Zones (AEZs) covering 182 districts in different parts of the country. The National Bank has extended refinance support to commercial banks for financing farmers covered under AEZs.

[14] www.nabard.org.

Agricultural and Processed Food Products & Export Development Authority (APEDA)

The Agricultural and Processed Food Products & Export Development Authority (APEDA) working under the Ministry of Commerce & Industry, Government of India is the nodal agency for notifying the zones in various states as Agri-Export Zones (AEZs). It also monitors implementation of the projects in AEZs. In addition, it also extends assistance under various schemes covering market promotion, publicity, supporting setting up of quality assurance/upgradation systems, supporting for research and development for product development etc. Therefore, the concept of AEZs, which aims to give a fillip to agricultural exports, comprises of potential zone based on agro-climatic requirements for a particular crop, promoting the identified crop in that zone so that abundant raw material is available at low cost through contract farming for processing, integrating various assistance programmes of Central and State Government agencies and providing fiscal incentives to exporters, implementing the scheme through the involvement of private and public partnership and integrating all activities till the product reaches the market As the technology and various agricultural practices adopted by the farmers growing the identified commodities in AEZ may be different from those farmers growing the same commodities outside AEZ, it may be necessary to provide higher finance than the normal scale of finance. The banks may ensure timeliness and adequacy of credit support to the farmers covered under the AEZ scheme.

Agri Export Zones adopting suitable technology and under contract farming of different types is already in practice for certain commercial crops like sugarcane, coffee, tea, cotton, etc., and vegetables and grains. Amul and NDDB for milk procurement, sugarcane crops in Maharashtra, etc., are some more success stories of contract farming. The main features of contract farming are that selected crops are grown by farmers under a buy back arrangement with an agency engaged in trading or processing. In India, small farmers are generally capital starved and cannot make major investment in land improvement and modern inputs. Contract farming is encouraged under these situations because production of small farms can be more successfully organised through this mode.

NABARD & RURAL WOMEN.

NABARD is endeavc ring to promote particularly the Rural Non-Farm Sector and for this many of the promotional schemes have been introduced to encourage the women. Basically, NABARD is an apex level refinance organization to the banking system in respect of their credit assistance to agricultural and allied sectors and rural industrial sectors (small scale, tiny, cottage and village industries, rural artisans and craftsmen). As an adjunct to this, NABARD has over a period of time, evolved various promotional concepts especially to gear up its efforts for promotion of Rural Non-Farm Sector, which have been mentioned in the earlier chapter. These concepts are experimental in nature and intended to test their reliability and have a demonstrative effect on the creation of sustainable income earning and employment generation opportunities in rural areas with credit support from banks.

Women in India form half of population and 75 per cent of them reside in rural areas. Recognizing the need for capacity building of these rural women for taking up income generating activities, NABARD has adopted multipronged strategies for addressing various constraints that come in the way of success of women entrepreneurs and has introduced women specific programmes with the objective of addressing the gender issues in credit dispensation and support services. Different schemes have been launched to promote the rural women .

A single window scheme called Assistance to Rural Women in non-farm Development (ARWIND) was introduced in October 1993 for meeting both promotional and credit needs of women entrepreneurs supported by NGOs.[15] NABARD recognizes the need for increasingly involving women in the various access to institutional credit so as to enable them to secure their legitimate place as equal partners in the development process. It has, therefore, come out with a special scheme for (ARWIND).

Under ARWIND, financial assistance is provided by NABARD to NGOs, Women Development Corporations, KVIC/KVIB, Cooperative Societies, Trusts, etc., for taking up various aspects of capacity building needs of women for promotion of women entrepreneurship. The assistance is available for activities like training for skill development, skill upgradation, enterprise management skills, escort services, setting up of common facility centers/setting up of mother units, organizing women, product design, quality control etc. and the amount of assistance is upto

[15] Annual Report of Nabard 1998-99, p. 145

Rs. 10,000/- per woman. The scheme has both credit and grant components. It is envisaged that women groups organized or sponsored by suitable agency could avail of bank credit normally *not exceeding* Rs. 50,000/- *per woman member for setting up of an* individual or a group activity. NABARD extends 100 per cent refinance assistance to banks in respect of credit extended to women entrepreneurs under the scheme.[16] Till 2002-03 the total no of projects sanctioned aggregated 124, involving a grant support of Rs. 2.96 crore benefiting, 9718 rural women.

Marketing of Non-Farm Products Of Rural Women(MAHIMA) a scheme aimed at developing a 'niche' or 'pro women' and to help the agencies engaged in marketing of products produced by rural women was introduced in November, 1997 as a part of the National Bank's initiatives to promote credit for women through promotion of Rural non-Farm Sector (RNFS).[17] The assistance is available for various aspects related to marketing like market survey, capacity building including training programmes on marketing, quality control, technology upgradation, design development, branding, labeling, preparation of catalogues, packaging design, publicity, common marketing facilities, setting up of showrooms, sales, outlets, mobile vans, organization/participation in exhibition and melas etc.

Under this scheme, NABARD provides 100 percent refinance to banks on the credit component and the quantum of promotional assistance is to the tune of 25 per cent of the project outlay of Rs. 10 lakh or 25 percent of minimum sales turnover, whichever is

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[16] www.nabard.org.

lower.[18] Till 2002-03 Rs.47.56 crore have been sanctioned to 19 projects.

Mainstreaming women in economic activities is considered crucial for bringing about gender balance in the development. It was felt that an area based approach to address area-specific problems, issues and promoting women specific activities and clusters, was needed to be adopted. NABARD has, therefore, introduced a new programme, viz., Development of Women through Area Programme (DEWTA) for women, on pilot basis, in 4 RRBs i.e., Aligarh, Rushikulya, Tungabhadra and Sri Anantha Regional Rural Banks.

Introduced in October 1995 the role of Women Development Cell (WDC) is to identify potential sectors for development of women, identify the various forward-backward linkages, capacity building needs like skill, marketing, etc., in respect of these sectors, identify clusters/areas where a specific sector can be developed, identify agencies/institutions that can be partnered in developing these women specific sectors, network with the partner agencies, facilitate need assessment, preparation of action plan and strategies for development of the women specific sector, assess the financial requirements for the promotional component and the credit components, prepare suitable proposals for the promotional ventures and submit it to agencies like NABARD, identify the women for the capacity building programmes, implement the promotional venture, follow-up and monitoring of the promotional venture, escort services to the trained women for setting up of the

[17] Annual Report of Nabard, p. 145

individual/group units, offer counselling/facilitate wherever required, monitoring the units set up, documentation of the results. Under this programme 100 Women development Cells have been supported between 1995 to 2003. During the year 2002-03, 9 such cells were supported in different parts of the country. The grant support under the scheme was enhanced to Rs. 1 lakh per annum per WDC. During 2002-03,the cumulative disbursement was Rs. 202.28 lakh . The terms of reference included, Role of WDC in, mobilisation of incremental business (Deposits & Advances), facilitating gender responsiveness in policies and plans of the bank and creating a Gender responsive environment within the bank, development of Gender responsive MIS & maintenance of gender disaggregated data, development of specific Women Oriented Bank Products, credit plus services to women, the studies have elaborated on the Qualitative aspects of the performance of WDCs.

FINANCING WOMEN THROUGH SHGS

SHG's have been promoted to cater to the needs of rural poor, especially women, who could not be reached by the formal credit institutions for a variety of reasons. The Self Groups are formed by NGOs or other promoting agencies and later linked for financial support to formal financial institutions like banks. This programme was first introduced through a pilot project by NABARD in 1992.

The project envisaged that recognition by the formal credit structure of the self-management capabilities of the poor through the SHGs and a linkup between the two would result in advantages

[18] www.nabard.org.

to both the systems. To the banks, the main advantage expected under the linkage project was the externalization of a sizable part of their work in credit dispensation (e.g. assessment of credit needs, appraisal, disbursal, supervision and recovery) and reduction in the formal paper work involved and consequently a reduction in the transaction costs. Improvement in recoveries and margins and mobilization of larger savings were additional benefits anticipated. For the SHGs, the advantages visualized from linkage were access to a larger quantum of resources as compared to the meager corpus generated through thrift, access to better technology and skill upgradation through different schemes of the banking sector, and a general improvement in the nature and scale of operations that would accelerate the economic development of the target group.

Most of the SHG's are groups of poor rural women and it has been observed in the linkage project that the impact has been positive. The recovery percentage has been excellent, being above 95 per cent and indicated significant improvement in income levels and standard of living. The poor women who were able to source credit through SHGs would not have obtained credit through the normal financial channels. It may, therefore, be observed that financing through Self Help Groups has become a very friendly user and hassle free system of financing poor rural women in all parts of the country. All the agencies involved and financial institutions have realized this and government agencies are increasingly inclined to channelise credit to women through Self Help Groups.

An evaluation study on the gender programme has made the following suggestions for improving the efficacy of the programme. There is need of gender component in training programmes, especially for the branch managers and regular review of the women development in the Board of the participating bank. Also, a woman member on the Board is suggested. Alternatively, a sub-committee of the Board on women development could be constituted. It recommended consultative committee on gender development at the Head Office and selected branches/areas offices of the banks and laid emphasis on credit-plus programmes like skill-based training programmes and marketing facilitation under the promotional programes like ARWIND and MAHIMA. It was strongly suggested that other banks which have not introduced women-specific programmes persuaded to adopted. It was needed that the WDCs will identify potential sectors/activities suitable for women and addressing the needs and plan for development of the sector through an area plan/programmes, banks to adopt specific media publicity strategy for women development news, publications, pamphlets and posters in local languages. The number of WDCs supported by NABARD be considered for fresh proposals as also when a WDC goes out of our assistance, increasing the total number to 150 to begin with, all the banks in DRIP districts can also be considered. This strategy will result in multiplier effect. An arrangement for exposure visits of the key persons to good performing WDCs should be made. The Impact evaluation studies have also shown that the present mobility component of Rs. 5000/- per annum provided under the scheme is insufficient for the key person to effectively facilitate the credit plus services as also gender orientation and monitoring required for increasing the credit flow to women. Therefore, it is required to increase the credit flow to women by enhancing the mobility allowance to Rs. 12,000/- p.a. in addition to Rs. 1 lakh provided per annum.

ENVIRONMENTAL PROMOTIONAL ASSISTANCE

NABARD's, Environment Promotional Assistance scheme started in 1998 provides assistance to development agencies like NGOs, Research Institutions, universities on selective basis for developing simple and cleaner technologies for resource recovery, waste minimization, waste management, pollution control devices, reuse/recycling and other environmental protection aspects, demonstration/replication of eco-friendly/pollution control measures/technology, management/treatment of effluents/wastes, providing training, organising publicity campaigns/awareness workshops/capacity building on environment aspects and also provides refinance support to banks against their investment credit for financing pollution control devices/measures (as per pollution control norms/regulations), as an integral part of the project outlays for approved purposes under both farm and non-farm sector. It also has refinance schemes for promotion of eco-friendly activities like National Resources Development Project (NARDEP), vermicomposts, non-conventional energy resources, soil and water conservation etc. During 2002-03, a project was sanctioned involving grant assistance of Rs. 6.37 lakh for promoting integrated and sustainable agriculture development in Parvana valley in Ahmadnagar district of Maharastra. During last year 2002-03, 13 environment meets were also conducted for creating awareness about environmental issues in agriculture and rural development .

FARM WATER MANAGEMENT FOR INCREASING CROP PRODUCTION IN EASTERN INDIA

The On-Farm Water Management Scheme launched by Government of India during 2001-02 for increasing crop production in 10 eastern states with appropriate water management schemes was further extended for implementation during the Tenth Five Year Plan period. During the year 2003-04, 29,546 minor irrigation structures/units have been installed in 10 eastern states and a total subsidy of Rs.38.08 crore has been released to the beneficiaries.

In short the study reveals that investment in project/schemes associated with agriculture and allied activities continued to generate adequate physical and financial benefits through inducement. Hence, it can be said that the Nabard has made an impact on rural development through its various schemes discussed above.

Agriculture is an area where reforms have largely failed to make a marked impact, as is evident from deceleration in growth, and several challenges continue to be faced by farmers, not the least of which is availability of water resulting in uncertain output.

India is richly endowed by Nature for agriculture production. Our arable to the total land area is 51 per cent against the world average of only 11 per cent. India already has the largest area of irrigated land in the world. Even if half of the total rainfall received over our country is preserved and delivered to fields, our entire arable land can produce two crops a year. It also have temperate climate, which enables us to grow crops throughout the year, whereas in most of the world, due to serve winters, only one crop can be grown in a year.

However, the natural resources are not being fully utilized. More then 38 million hectares of our land, which though cultivable has been left uncultivated, classified as "cultivable wasteland" or old and current fallows". This area of 38 million hectares is more than the total cultivated area of four countries viz., Pakistan, Nepal, Bangladesh and Japan, which provides succour to more than 400 million people living in those countries. Five Year Plan expenditure on "agriculture and allied activities", which was 6.1 per cent of the total plan expenditure during the sixth plan, was brought down to only 4.4 per cent during the Ninth Plan. As a consequence, the "Green Revolution" has now withered away.

For all these purposes, an insurance cover to livestock in the existing agriculture and agriculture income insurance scheme is also proposed to be introduced on a trial basis in 20 rain-gauge stations in the current crop season. A big boost is planned for expanding water harvesting and watershed development apart from encouraging micro-irrigation and drinking water schemes.

However, rural penetration and consumption levels for most product categories are much lower than urban because of limited purchasing power with villages. Improved irrigation facilities, infrastructure, better roads, free trading in agri-produce, removal of excise duty on tractors, agri implements; and the insurance scheme for farmers that can give a boost to the rural economy and generate the rural economy and generate greater demand for corporate products is needed. The per capita income in rural areas is less than half of urban, the rural sector already accounts for 53 per cent of FMCGs and 59 per cent of durables bought in India.

There is no large cot ntry in the world, which has attained the status of a developed country, without first developing its agriculture, and achieving nearly total literacy among its people. In India, our decision-makers have ignored both. If we really want to progress, we should first pay more attention to agriculture and human development. Sensibly, the Rural Infrastructure Development Fund, under Nabard, is expected to be revived through the provision of Rs. 8,000 crore which looks superfluous because RIDF was always short of projects, not of funds. The budget 2004-05 is quiet on interest rates on farm credit even as it fixes responsibility on Regional Rural Banks to deliver credit to farm sector. The government has pulled back from reshaping the politically sensitive cooperative credit system, instead on Task Force has been recommended which will only prolong the bleeding. Although comprising numerous small entities, the co-operative banking sector has an important share of the financial system but remains weak and inadequately regulated.

Undoubtedly the increase in allocation for agri-cultural research and development to Rs. 1,000 crore from Rs. 775 crore, provision of additional capital to the small farmers Agri-business consortium, introduction of a weather insurance scheme, and exemption from excise duty for tractor, dairy machinery and hand-tools are another measures that will bring some relief to the distressed farmers in drought affected regions.

Rural infrastructure (access roads, warehouses) and primary processing facilities should be created. We need a policy environment conducive to attracting private investment in production and agro processing. Corporates should be encouraged to established backward linkages through contract farming. Effective implementation of schemes is needed for a successful agri-vision.

More attention is needed towards "Gender Sensitivity" i.e. towards rural women foı the overall development for the rural sector.

In nutshell, we need a dynamic policy of rural development through agriculture and non agriculture rural based production activities. The NABARD is primarily responsible for encouraging and financing such activities. However, for effective implementation of its policies and programmes a multidimensional approach is necessary. The next chapter deals with suggestion for its dynamic role and recommends new measures to achieve its objectives .

Chapter 5

Problems, Suggestions and Conclusion

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Problems, Suggestions and Conclusion

Economic development and progress of India really means reconstruction and resurgence of rural communities in the country. The performance of the Indian economy is crucially dependent on agriculture. There are links between agriculture and rest of the economy in the product and factor markets. Agriculture supplies the major wage goods (food) and raw materials for the economy. Agriculture has potential for exports and can contribute to foreign exchange earnings. On the demand side, agriculture provides a market for non-agricultural products and services. As of new (i) 72 per cent of the population resides in rural area (ii) it engages 64 percent of the workforce, and (iii) agriculture and its results goods contributes around 28 per cent in total exports of India, 80 per cent of farmers are small & marginal and 75 per cent of the poor are in rural areas. The thrust of sector during the Tenth Five Year Plan (2002-07) is on agricultural production by bringing about improvements in productivity, value addition and exports. The need for stepping up the growth of the agriculture sector from the present level of 2.73 per cent (during the period 1990-91 to 2000-01, at 1993-94 prices) to more than 4 per cent by the year 2005 has been recognized in the National Agricultural Policy. The agricultural growth of this order is expected to put the other sectors also on a higher growth trajectory by stimulating demand for the goods and services of these sectors through improvements in rural income levels. The first-generation economic reforms initiated in the country from 1991-92 generated a liberalised environment but have not significantly influenced the agricultural sector, except in an indirect manner.

Agriculture is a way of life, a tradition, which for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture therefore, is and will continue to be central to all strategies for planned socio-economic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food security and to bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels.

Indian agriculture has, since Independence, made rapid strides. In production from 51 million tones of the early fifties to 206 million tones at the turn of the century, it has contributed significantly in achieving self sufficiency in food and in avoiding food shortages in our country. The pattern of growth of agriculture has, however, brought in its wake, uneven development, across regions and crops as also across different sections of farming community and is characterized by low levels of productivity and degradation of natural resources in some areas. Capital adequacy, lack of infrastructural support and demand side constraints such as controls on movement, storage and role of agricultural products, etc., have continued to affect the economic viability of agriculture sector. Consequently, the growth of agriculture has also tended to slacken during the nineties.

There is a growing realization that the goals for the agriculture sector set under the Tenth Five Year Plan may be difficult to attain unless major reform initiatives are carried out in the agricultural sector, since agricultural credit is one of most important inputs in all agricultural development schemes. In the olden days, the major source of rural credit was money lenders and this source of credit was inadequate, expensive and exploitative. In this matter, since independence, a multi-agency approach has been adopted to provide adequate credit to agriculture. The major policy in the field of agricultural credit has been adopted to provide adequate credit to agriculture. The major policy in the field of agricultural credit has been towards the progressive increase with adequate and timely flow of credit to assist the vulnerable sections of the society. The main objectives of the lending policy have been:

(i) to ensure timely and increased flow of credit to the agricultural sector; (ii) to reduce and gradually eliminate the money lenders from the field of rural finance; (iii) to provide larger credit support to areas covered by special programmes; and (iv) to make available credit facilities to all the regions of the country and reduce regional imbalances in the matter. There are two sources available for the rural credit to farmers. They are institutional agencies & non-institutional agencies. Non-institutional sources include money-lenders, traders & commission agents, relatives and landlords, where as the institutional sources include the co-operatives, Commercial Banks, RRBs, SBI and the Government.

Historically, one of the purposes for establishing the Co-operative credit system was to bring together people of small means for promoting thrift and mutual help for development. Commercial banking in India, on the other hand, came on the traditional lines and was not turned to rural banking (except lending to plantations) even within the framework of their adherence to security-oriented lending. The leadership and ethos in commercial banks were urban. However, gradual change started following the recommendations of the All-India Rural Credit Survey Committee in 1954. The conversion of Imperial Bank of India into the State Bank of India in 1955, introduction of social control over banks in 1967, and the subsequent nationalization of the major banks to play a dynamic role in the development process of rural and backward areas and for the upliftment of the poor sections of society.

Inspite of these development oriented lending institutions, the institutional credit system continued to suffer from certain basic shortcomings, viz., lack of much needed bias in favour of small farmers and other weaker groups whose need for credit is greater & more urgent, emphasis on credit-worthiness of borrowers instead of credit-worthiness of purposes for which loans are required. In this sense, the lending operations of Commercial and Co-operative banks have tended, by and large, to be more money lending, institutions only but without satisfactory organizational procedural and operational arrangements, for planned and systemic dovetailing with overall national development policies and objectives. It is in this context that urgent need for imparting development orientation to banking in the rural sector was felt.

There are some institutions which are engaged in rural credit indirectly, namely, the RBI, the AFC and the ARDC (reconstituted as NABARD in 1982). Among these, the NABARD is the institution, which provides refinance facility of credit delivery systems engaged in rural financing.

The establishment of National Bank for Agriculture & Rural Development (NABARD) is the landmark in the evolution of agricultural finance. It has the objective of promoting the health and strength of credit institutions forming front of the delivery system, i.e. co-operative bank, commercial banks and regional rural banks. An indepth analysis of the rural sector financing of NABARD has been made in preceding chapters.

There has been an appreciable increase in the flow of credit from the institutional agencies to the rural areas. The major problem faced by the lending institutions is the most unsatisfactory level of overdues. The recoveries of cooperative banks fell to 50-55 per cent in 2002-2003 due to severe drought experienced in many states, while that of RRBs it was around 70 per cent. That way, RRBs are stronger financially when compared to Cooperatives banks, but their share in the total lending in rural areas remained a meagre eight per cent, compared to about 50 percent market share of commercial banks and 40 per cent share of Cooperative banks. To meet the enhanced fund requirement of the farm sector during the year 2002-2003. Nabard has also started to tap external commercial borrowings (ECBs) and raise deposits from public, besides, issue of capital gain bonds and tax-free bonds, which are the major sources of fund raised by the apex agricultural bank till 2001-02. The health of agricultural credit institutions is in a sad state in several parts of the country. For effective moral lending a sound system of agricultural financing should be ensured in the country and this system should have the following features with a view to making the same more meaningful.

The setting up of the Watershed Development Fund (WDF), with an initial corpus of Rs. 100 crore from NABARD has facilitated in giving focused attention to the promotion of watershed technology in various parts of the country.

WDF should be utilized, inter-alia, for promotional efforts community organization, capacity building, supplementary flexible financing and full scale financing of projects on a grant/loan basis through village communities, PRIs, NGOs, etc., and a loan product for the State Governments.

The scheme of cyclical credit has been reintroduced by NABARD to ensure that farmers in rainfed areas are not denied access to institutional credit due to non-wilful defaults, arising out of frequent failure of rains.

The RIDF was established in 1995-96, with an initial corpus of Rs. 2,000 crore, for providing funds to the state governments and state owned corporations to enable them to complete various types of rural infrastructure projects, especially those related to irrigation, watershed management, flood protection and rural connectivity. A total of 9 tranches of RIDF have been set up till now.

NABARD's endeavour is to strike a balance between the development of economic and social infrastructure as well as in increasing the level of participation of peoples' organization in the development of rural infrastructure under RIDF.

Fishery, both inland and marine, is an important economic activity of many parts of the country and provides sustenance to the poor in these areas. An investment in brackish water aquaculture sector has slowed down on account of issues related to environmental degradation.

Improved technology for increasing the production and productivity in traditional and improved traditional shrimp farming activities in the Coastal Regulation Zone (CRZ) has given a fillip to the sustainability of schemes in this sector. NABARD is making efforts to promote schemes that integrate the fishing activity with crop cultivation in areas with abundance of surface water resources.

Extension education is an important means of transferring to the field the proven technology developed by the agricultural universities and in ensuring optimal use of inputs in tune with the recommended package of practices. Over the years, these efforts have slackened for a variety of reasons. With the objective of providing extension services to farmers, a credit linked scheme for setting up of more agri-clinics and Agri-business Centres by agricultural graduates should be launched with refinance support from NABARD.

NABARD also believes that over-dependence on agriculture for livelihood will put excessive pressure on land. NABARD has recognized Rural Non-Farm Sector (RNFS) as an important sector for generating sizeable income and employment in rural areas through credit and promotional support in a cost effective manner. The promotional programmes initiated by NABARD aim to establish replicable models for generating/enhancing opportunities for employment and income generation in rural areas in a sustainable, demonstrative and cost-effective manner by providing grant/revolving fund assistance, etc. to NGO's Voluntary

Associations, Trusts and Promotional Organizations, etc. A Rural Promotion Corpus Fund with a corpus of Rs. 61.81 crore has been set up with the bank, the interest earned on which is used for supporting innovative promotional programmes. The type of support given under the programmes includes developing entrepreneurs, support to promotional organizations, research and studies, areas programmes, strengthening credit delivery, setting up of women cells and other interventions.

Many research studies, done in-house as well as external professional institutions, and some action research projects funded out of the Research and Development Fund of NABARD, led to the development of SHGs-Bank linkage model. It needs to be emphasized that NABARD sees the promotion and bank linking of SHGs not as a credit programme but as an innovation, which could also lead to overall empowerment of the members of these SHGs.

Starting with the NABARD led limited scale pilot project in 1992 that aimed at promoting and financing 500 SHGs across the country, the SHG-Bank linkage strategy has come a long way with more than 4.61 lakh SHGs covering 78 lakh rural poor households financed by banks with credit to over Rs. 1,026 crores and NABARD refinance of Rs. 796 crores by March 2002, the SHG-Bank linkage Programme has emerged as the largest microfinance programme in the world. Over 17,000 Bank branches of 44 commercial banks, 191 Regional Rural Banks (RRBs) and 209 District Central Cooperatives Banks (DCCBs) were involved in financing these groups. Repayments by members to SHGs have been excellent and on time repayments have hovered around 98 per cent. Similarly, the on-time loan repayments by SHGs to banks are over 95 per cent.

The key interventions designed, implemented and funded by NABARD included (i) massive human capital development exercise aimed at awareness building and training of banks. NGOs, government agencies and SHGs (ii) supporting large scale promotion of quality SHGs (iii) documentation, monitoring and dissemination of the progress and best practices. Under its various training programmes by now, 49,700 bank officials, 10,000 NGO, staff of government agencies and 1,30,000 SHG leaders have been covered. For leveraging larger loans, NABARD continues to extend larger loans, and 100 per cent refinance to banks at attractive terms.

In addition, to facilitate graduation of the poor to mircoenterprise stage, NABARD supports at skill upgradation, entrepreneurship development and marketing of the produce.

A study of NABARD which covered 560 SHG member households from SHGs, spread over 11 states revealed that the programme has achieved positive results in socio-economic terms. There have been perceptible and wholesome changes in the living standards of the SHG members in terms of ownership of assets, increase in savings and borrowing capacity, investments for income generation and income levels. The involvement in the group significantly contributed in improving the self confidence of members. The feeling of self-work and communication with others improved after association with SHGs. The members were more assertive in confronting social levels and problem situations, a clear indication of growing empowerment.

An important aspect of sustainable rural development is the need to empower women, who have a very important role to play. With this in view, NABARD has opened special refinance facilities for financing women in rural areas. These are available under the scheme of providing Assistance to Rural Women for Non-farm Development (ARWIND) and Support for marketing of Non-farm Products of Rural Women (MAHIMA). NABARD has organized some gender sensitatisation meets for creating awareness among banks, NGOs and State Government officials regarding general issues in credit and support services to women. Studies show that providing financial services access to women contributes to family welfare and produces a sustained economic impact.

However, the functioning of NABARD is not free from weaknesses.

NABARD was developed with a realistic approach for ensuring timely and adequate finances to the rural sector. It was established as an apex financing agency contributing finances mainly to the farmers and also for providing inputs to them in a more realistic and suitable manner. It has also done a lot in the matter of financing the agriculture and coordinating the functioning of state financing agencies.

However, high rate of interest, limited selected activities, high expense ratio, poor recovery, limited operational area have been pointed out time and again by researches as its weaknesses. Moreover, it has not succeeded in reducing the cases of overdues duplication of loans, improper utilization of loan, delay in sanctioning loans.

The causes of overdues are many. The Nabard Report for 1988-89 summarizes the causes of deterioration in the recovery performance as : (i) incidence of natural calamities; (ii)the incorrect calculation, in some cases, of demand collection and balance; (iii) inadequate efforts for recovery and the failure to take coercive action against defaulters; (iv) the withdrawal of interest waiver facility in, at least, one Sta te; (v) absence of linkages between credit and marketing and loan recovery from the marketing agencies; and (vi) political reasons. The last one is particularly sinster as the Movement is helpless against remission of loans sanctioned as a political favour, often, by a new party in office.

The studies conducted by NABARD have revealed that the main reason behind the high level overdues was the failure in postponement of current installments during natural calamities, prescribing of shorter loan maturities and grace period that is necessary, lack of penal actions, etc. NABARD introduced action plans and training programmes in project formulation and programmes for credit institutions.

The National Agriculture Federation, representative organization for the long-term credit structure, mentions that NABARD norms for loan eligibility are excessively rigid. It recommends that a more liberal approach should be applied to the grant of loans. This would, possibly, increase the risks inherent in lending. Basically, it appears that NABARD's attempt is to provide for defense measures against the shifting market forces by laying down norms, procedures etc. If the LDBs were allowed flexibility of decision-making to adjust to changing situations, their response, to maintain the Federations, would be more timely and relevant. On he other hand, if refinance facilities are provided by NABARD, the later will retain the decision in the conditions on which it is prepared to allow re-financing. The margin of three and a half percent currently allowed to LDBs by NABARD on its advances for re-finance facilities is considered too low by the LDBs especially as the Banks have to lend 60% of their advances to small farmers and other weaker sections. Supervision of the utilization of small loans is costly. The costs of raising funds by LDBs have increased over the years without a corresponding increase in the lending rates.

Suggestions

The three main suggestions advanced for improvement in recoveries may be: (i) the postponement of current demand allowed by the NABARD due to delinquencies caused by natural calamites; (ii) the interest subsidy extended by the State Government for the timely repayment of cooperative dues; and (iii) vigorous recovery efforts by SLDBs. Other factors worth mentioning are : (a) the careful rescheduling and ·ephrasing of loans when default is not willful and is caused by factors over which the loanee has no control; (b) correction of organizational weaknesses such as the establishment of a link between credit and marketing; (c) synchronizing the repayment schedule with a period when the farmer has the maximum repayment capacity such as at harvest time; (d) devising insurance schemes against the non-payment of principal and interest; (e) encouraging the borrowers to make advance payments when they have surplus resources; (f) ensuring that the collaterals are bonafide (g) adopting expeditious recovery procedures and strengthening LDBs supervisory machinery; (h) deploying adequate and trained recovery staff and providing for their physical security; and (i) simplifying and evolving positive legal procedures for recovery, (the cooperative Societies Act in Maharashtra Provides for an LDB loan to be recovered from the sale proceeds of agricultural commodities and processing units like cooperative sugar factories).

The NABARD faces a number of problems in its financing, working and recovery. Measures to be taken for these problems may summarily be given as follows.

(i) the arrangements should be made for directing the flow of credit in a proper way. The NABARD has not been able to coordinate the financing activities of all the state agencies. The functioning of State Financial Cooperation, State Cooperative Banks, Land Development Banks etc. could not be brought under a uniform lending system for the rural sector. The state financing agencies could not be convinced to behave in a uniform manner and follow the guidelines made by the NABARD. Besides, on occasions it has been found that the schemes as made by the Government, Reserve Bank of India and NABARD have not been implemented with the spirit they have been formulated. In a number of cases it is felt that the terms as laid down by NABARD have been very rigid. Sometimes it becomes difficult for state lending agencies to fulfill those conditions. It is also felt that the NABARD has only kept its activities limited to refinancing the state lending agencies. NABARD has not taken interest in the matter of providing timely agricultural inputs to the rural sector & has not taken up this work as one of the important functions of NABARD.

(ii) The farmers in general and the marginal farmers & the rural artisans in particular who have been facing difficulties, while availing credit facilities should be paid maximum degree of attention so that they may get the input in time and sell the output at a standard cost.

(iii) Mounting overdues have been found not only at the level of primary agriculture credit societies but also in respect of long term cooperative credit sector.

First generation reforms, were introduced in 1991 to stablise and later to bring structural adjustments in the economy, have now entered into the second generation reform in which for more far reaching results sectoral development is needed. In agriculture sector also these following issues should be given consideration:-

(1) Capital formation and growth in agriculture

(2) Diversification and commercialization of agriculture and rural industries for boosting export and employment generation.

(3) Regional and sectoral imbalances to be reduced

(4) Development of Small Farmers/Medium Farmers, SC/ST, Women etc.

(5) System improvement in credit institutions, coordination in multi-institutional controls for strengthening the planning, policies, operations and monitoring system of rural credit.

(6) Strengthening resource base of NABARD and restrictive provisions of NABARD Act relating to resource mobilization and business operations.

(7) From 1995 onwards NABARD has decided to take up direct financing and as such, it has been financing high value projects as also export-oriented projects with a re-agro based. However, progress in this respect has been very limited and slow, and a lot of ground remains to be covered. Also there is need for involving NABARD in disaster management particularly in respect of crop insurance and other crisis.

(8) Need for promoting alternative credit delivery system. (NGOs/SHGs) & also the development of innovative credit packages.

The bank has now run through a span of almost two decades (1982-2003) during which it has made significant progress in giving refinance for the development of agricultural credit projects through the three credit systems commercial banks, regional rural banks and cooperatives. The volume of refinance substantially has been increasing year after year. The thrust in this area has however, to be accompanied by simultaneously strengthening the credit system without which the refinance will have fail to achieve its desired objective of increasing agricultural production, & raising the level of rural economy. It has been argued that, NABARD has not been able to fully live up to the high expectations. Although it could achieve quantitative expansion in refinancing the client banks, it has not yet become the rural driving force of the rural credit system, as was envisaged. No doubt there are certain areas in which the NABARD has to take fresh initiative if it is to emerge as a strong development bank for rural regeneration.

With a view to improving the economic condition of rural masses in less developed/underbanked states the NABARD should provide more refinance on easy terms and conditions. It is noteworthy that despite considerable growth potential, the eastern region exhibits low agricultural productivity. According to a report from the official of NABARD the benefits of HYV technology have not spread out sufficiently in the region. NABARD should take special measures particularly, seeking to bring about better functional coordination between State Governments, banks and other concerned agencies and prepare bankable projects and schemes and credit should be made available on easy terms and conditions.

In view of low percentage of disbursements for diversified purposes, i.e., NABARD should adopt the policy of providing priority in disbursing refinance for diversified purposes, because the activities under diversified purposes are linked directly to the livelihood of the weaker section of the society in rural areas. More flow of refinance for this sector will be helpful in improving the economic condition of the weaker sections.

The following are the suggestions to overcome the problems:-

Firstly, the main function of NABARD is to provide refinance to cooperative, rural banks and commercial banks for short, medium & long-term requirements, it is imperative for it to have their use of funds monitored on a continuing basis. It is not a difficult task and can easily be performed by NABARD's regional offices spread allover the country.

Secondly, there is no doubt that the real success of NABARD will be measured by the transformation it can bring about in the rural credit system so as to shape it into an effective instrument for the welfare of poor sections. For this purpose, proper coordination is required between the various poverty alleviation programmes i.e., IRDP, Minimum Needs and Rural Employment programmes. Being leader in purveying rural credit, NABARD has the responsibility for imaginative planning and proper implementation of its programmes.

Thirdly, NABARD is an apex body in the matter of taking up their problems with the government and other financial institutions. Hence, NABARD should have its own restructuring for streamlining its operations. Moreover, it should raise the bulk of its resources from the market and the bulk of its lending should be at market related interest rates. Subsidized lending by NABARD should necessarily be a relatively smaller segment of its total lending.

Fourthly, the NABARD should improve its functional capabilities in project identification, preparation, appraisal and monitoring and ensure that its client banks are equipped to perform these functions more effectively. In particular, the NABARD and client banks should improve their project monitoring activities such as obtaining the prescribed returns, and ensure proper use of credit and recovery of loans to enable the ultimate borrowers to realize the full potential from the sanctioned projects. The weakness in monitoring is due to lack of control over the credit agencies, even the commercial banks. The NABARD can acquire and develop the necessary clout over these institutions initially with the help of and coordination with the Reserve Bank which as the central bank of the country and the licensing authority has a better grip over the client banks, mandatory and even otherwise. In course of time, however, NABARD will have to evolve its own image to enforce the required discipline in this area as well as in other areas where the Reserve Bank has found necessary directions.

Sixthly, NABARD should pay greater attention in extending refinance and developing the non-farm sector in areas like waste lands, afforestation programmes, financing the artisan class and agro-processing industries.

Seventhly, some policy initiatives taken by NABARD in the past marked a good beginning in the direction encouraging diversion of population engaged in agriculture to non-farm sector. However, the progress in the matter of development of agro-processing and food processing industries has been very limited and slow and a lot of ground remains to be covered. It will be very necessary for NABARD to develop special efforts to expedite progress in this direction. At a particular point of time some decades ago, people were quite scepticle about the cooperative sugar factories. Now they have proved to be models of success. The same credibility has to be achieved in the matter of other areas of processing like horticulture, etc.

Eighthly, present dispensations of NABARD and erstwhile RBI in the matter of crisis management and disaster management have proved inadequate as has been seen from time to time. It would be very necessary for NABARD, to take up as a bank owned by Government the question of serious implementation of various recommendations of Khusro Committee in the matter of comprehensive crop insu ance and other measures which would help in disaster management.

Finally, It is high time for NABARD to change its management style and make it a highly function oriented cutting bureaucratic ladders and red tapes and cross references in the name of so-called 'examination' of policy matters. In fact, it should try to impose upon itself certain disciplines like the time taken to dispose of schemes and proposals which are presented to them for consideration, presentation of the proposals and sanction to exceed to two weeks. For this purpose wherever necessary it may introduce latest techniques of MIS: computerization, etc.

To conclude, NABARD has acted as an apex refinance institution as well as development institution in the field of agriculture and rural development. In all fairness, it can be said that overall NABARD's performance is satisfactory and can be made more functional if some improvements are brought about as given above. If the schemes of the NABARD are made more practical and accessible to the rural masses this could make the chances of entire rural economy more glaring. Thus what is needed is making available more resources at the disposal of NABARD and active cooperation of various state Governments and agencies disbursing credit to the farmers and artisans etc. living in rural areas. This can make the future more bright & meaningful.

APPENDICES

APPENDIX 1

Types of credit facilities provided by National Bank under NABARD Act, 1981.

Purpose with relevant Sections of the NABARD Act, 1981	Eligible Institution	Period of credit
I. Short term credit (Section 21) (i) Agricultural operations or marketing of crops	(a) State Cooperative banks. (b) Regional Rural Banks (c) Any other financial institution as may be approved by RBI	Repayable on demand or on the expiry of fixed periods not exceeding 18 months.
(ii) Marketing & distribution of inputs necessary for agriculture or rural development.		
(iii) Any other activity for the promotion of or in the field of agriculture or rural development.		
(iv) Bonafide Commercial or trade transaction		
(v) Producing or marketing activities of industries in the tiny & decentralized sector, rural artisans, small scale industries village & cottage industries, those engaged in the field of handicrafts and other rural crafts.		
II. Medium Term Credit **a. Conversion Loan for production Credit (Section 22)** Conversion of short-term loans into medium term loans under circumstances owing to drought, famine or other natural calamities or military operations or enemy action. Financial Assistance for enabling the borrowing bank or institution to:-	(a) State cooperative banks (b) Regional Rural Banks (c) Any other financial institution as may be approved by RBI	Not exceeding 7 years

(i) pay any dues to the National Bank for credit extended for financing agricultural operations or marketing of crops or;		
(ii) make loans & advances to central cooperative banks or primary rural credit societies by way of reimbursement of loans and advances made by such cooperative banks or societies for agricultural operational for reimbursement of such loans or advances which have been converted into medium term or advances		Not less than 18 months & not exceeding 7 years.
(b) Rescheduling facilities to artisans, small scale industries etc. (Section 25) Where owing to unforeseen circumstances, rescheduling of loans & advances made to artisans, small-scale industries, industries in the tiny and decentralized sector, village & cottage industries & those engaged in the field of handicrafts & other rural crafts is considered necessary by the NABARD.	(a) State cooperative banks, (b) Regional Rural Banks, (c) Any other financial institution as may be approved by RBI.	Not less than 18 months & not exceeding 7 years.
(c) Medium Term Investment credit (Section 24) Investment credit connected with agriculture & rural development or such other purposes as the National Bank may from time to time determine.	(a) State Cooperative Banks, (b) Regional Rural Banks,	Not less than 18 months and not exceeding 7 years.
III Long Term Credit (Section 25) **a. Other Investment Credit** (i) Refinance for promoting agriculture and rural development & allied activities such as mi: or irrigation, land development soil conservation, dairy, poultry, piggery, sheep rearing, farm mechanization, storage & market yards, fishery plantation/horticulture, forestry,	(a) State land development banks, (b) State Cooperative Banks, (c) Scheduled Commercial Banks including the RRBs, (d) Any another financial institutions as	Whether originally or by rescheduling the payment thereof, the period should not exceed 25 years.

agriculture aviation, bio-gas and other alternative sources of energy, sericulture, pisciculture, animals & animal driven carts agro-processing, agro service centres, compost plants, modern abattoir pumpsets, energisations etc.	may be approved by RBI.	
(ii) purchasing or selling or subscribing to the bonds or debentures issued by any bank or approved institution as specified in col. 2		Not exceeding 25 years
(iii) Refinance for artisans, small scale industries, industries in the tiny & decentralized sector, village & cottage industries & those engaged in the field of handicrafts and other rural crafts & also rescheduling the payment of such loans and advances.	(a) State Cooperative Banks, (b)Scheduled Commercial Banks including RRBs.	Not exceeding 25 years whether originally or by rescheduling the payment thereof.
(iv) Short-term credit in connection with any financial assistance under clauses (a) or (c) referred to above including rescheduling of the sa ie into long-term loans.	(a) State Land Development Bank. (b) State Cooperative Banks. (c) Scheduled Commercial including the RRBs.	Not exceeding 18 months by way of refinance as also scheduling the payment of such loans and advances for such period as deemed fit by "The National Bank"
(b) Loans to State Governments for share capital contribution (Section 27) For making loans & advances to State Governments out of National Rural Credit (Long-term operations) Fund for enabling them to subscribe directly or indirectly to the share capital of a Cooperative Credit Society	Any Cooperative Credit institution through the State Government.	Not exceeding 20 years.

APPENDIX II

Quantum of Refinance (w.e.f. 01.12.2000)

(% of bank loan)

S.No.	Purpose/Sector	Financial Institution			
01.	**North Eastern Region and Sikkim**	SCARDBs	SCBs	RRBs	CBs
	(Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland & Tripura as well as Sikkim).				
a.	SC/ST Action Plan/Waste Land Development, Dry Land Development, ARWIND, MAHIMA, SHG, Margin Money Scheme	100	100	100	100
b.	Non Farm Sector	100	100	100	100
c.	All other purposes	95	90	90	90
II.	**Other Regions**				
1.	SC/ST Action Plan, ARWIND, MAHIMA, SHG	100	100	100	100
2(a)	Wastelend development schemes where individuals are the beneficiaries i) Nursery Schemes} ii) Farm Forestry} iii) Tree Patta Scheme}	100	100	100	100
2(b)	Dry land development	100	100	100	100
2(c)	Forestry programmes sanctioned to corporate bodies including Forest Development Corporations	-	-	-	-
3.	Minor Irrigations {Schematic as well as ARF (FS)}	95	95	95	95
4.	Government sponsored programmes like SGSY including ISB component	95	90	90	90
5.	Diversified purposes (Schematic as well as ARF)	90	90	90	90
6.	Farm Mechanisation (including power tillers)	95/90*	90	90	90

7.	Work animals, animal driven carts & bio-gas	90	90	90	90
8.	Non-Farm activities (including pre-sanction schemes)**	100	90	90	90

* Refinance @95% is provided to SCARDBs in certain defined states/areas as indicated in our circular NB/ICD/708/PPS-154/97-98 dated 11 February 1998. In respect of advances made for acquisition of second tractor by a beneficiary, the quantum of refinance will be 40% of loan amount.

** DRIP/APRI areas to have 100% refinance for Non-farm sector for all agencies.

NOTE: In the case of externally aided projectors, the percentage of refinance as specified in the relative agreements and as indicated in the sanction letter will apply.

Agency-wise/Broad sector-wise Flow of Ground Level Credit (GLC) and NABARD's Refinance for Agriculture and Allied Activities During 1998-99, 1999-2000, 2000-2001 and 2001-2002

Particulars/Agency	1998-99			1999-2000			2000-01			2001-02		
	GLC for agri. Sector	NABARD's refinance	%age of NABARD's Refinance to total GLC for agri.sector	GLC for agri. Sector	NABARD's refinance	%age of NABARD's Refinance to total GLC for agri.sector	GLC for agri. Sector	NABARD's refinance	%age of NABARD's Refinance to total GLC for agri.sector	GLC for agri. Sector	NABARD's refinance	%age of NABARD's Refinance to total GLC for agri.sector
I. Short Term (ST) Production Credit												
SCB CCBs	12571	4398	35.0	14845	4849	32.7	16564	5134	31.0	21542	5435	25.2
Regional Rural Banks	1710	976	57.1	2423	970	40.0	3239	1040	32.1	3415	1109	32.5
Commercial Banks	9622	0	0	11697	0	0	13480	0	0	16004	0	-
Sub Total (1)	**23903**	**5374**	**22.5**	**28965**	**5819**	**20.1**	**33283**	**6174**	**17.8**	**40961**	**6544**	**16.0**
II. Investment (MT/LT) Credit												
SCB CCBs/SCARDB	3386	2235	66.0	3518	2496	70.9	4220	2636	62.5	5538	3011	54.4
Regional Rural Banks	750	559	74.5	749	563	75.2	980	642	65.5	1541	822	53.3
Commercial Banks	8821	1070	12.1	13036	1312	10.1	14231	1853	13.0	15960	1222	7.7
ADFCs/PUCBs	0	3	0.0	0	7	0.0	0	7	0.0	0	12	0.0
Sub Total (2)	**12957**	**3867**	**29.8**	**17303**	**4378**	**25.3**	**19431**	**5138**	**27.3**	**23039**	**5067**	**22.0**
ST + MT/LT (Credit)												
SCB CCBs/SCARDB	15957	6633	41.6	18363	7345	40.0	20784	7770	30.1	27080	8446	31.2
Regional Rural Banks	2460	1535	62.4	3172	1533	48.3	4219	1682	44.2	4956	1931	39.0
Commercial Banks	18443	1070	5.8	24733	1312	5.3	27711	1853	6.7	31964	1222	3.8
ADFCs/PUCBs	0	3	0.0	0	7	0.0	0	7	0.0	0	12	0.0
Grand Total (1+2)	**36860**	**9241**	**25.1**	**46268**	**10197**	**22.0**	**52714**	**11312**	**21.1**	**64000**	**11611**	**18.1**

Note : 1. NABARD refinance for short-term Production Credit and Investment Credit for Non-Farm activities are not included.
2. MT + LT (excluding conversion)

Appendix IV

STATE-WISE AND PURPOSE-WISE REFINANCE DISBURSEMENT TO ALL AGENCIES DURING 2002-2003 AS ON 31 MARCH 2003

(Rs. Lakhs)

STATE/UT	MI	LD	FM	DLF	PH	DD	MF	IF	BWPC	SG/MY	FOR	BG	PF	SGP	AH (Oth)	SGSY (FS)	SGSY (ISB)	SC/ST-FS	SC/ST-NFS	NFS	OTH	SHG	TOTAL	% Share
CHANDIGARH	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8	14	0	0	0	603	0	625	0.1
DELHI	0	0	0	0	0	0	0	0	0	158	0	0	0	0	0	0	0	0	0	521	0	0	679	0.1
HARYANA	1598	3621	8293	0	718	9891	0	160	0	0	351	9	2739	990	4788	682	166	137	94	9740	3660	176	47813	6.4
HIMACHAL	554	445	1369	0	261	850	0	3	0	112	0	0	59	178	575	371	534	126	610	10692	80	774	17593	2.4
J & K	3	1	454	0	0	66	0	0	0	0	0	0	0	13	4	575	3473	51	5	216	0	17	4879	0.7
PUNJAB	5012	2732	7787	0	302	15625	0	304	0	183	107	0	1147	87	2024	54	47	12	13	11085	10725	85	57331	7.7
RAJASTHAN	7342	907	8911	17	71	4515	0	4	0	213	0	0	96	302	149	953	383	355	271	4150	2920	1471	33030	4.5
NORTHERN	**14510**	**7707**	**26813**	**17**	**1352**	**30946**	**0**	**470**	**0**	**667**	**457**	**9**	**4041**	**1570**	**7540**	**2643**	**4619**	**681**	**993**	**36404**	**17987**	**2522**	**161949**	**21.8**
ARUNACHAL	0	1	0	0	25	5	0	20	0	0	0	0	0	43	0	62	31	0	0	504	0	0	690	0.1
ASSAM	0	1	97	0	94	11	0	0	0	22	0	0	6	28	2	158	441	0	0	5717	159	200	6937	0.9
MANIPUR	18	0	91	0	0	0	0	2	0	0	0	0	1	0	0	0	0	0	0	261	124	22	519	0.1
MEGHALAYA	0	0	1	0	61	2	0	0	0	0	0	0	5	20	0	13	10	0	0	804	0	1	917	0.1
MIZORAM	0	0	2	0	24	5	0	0	0	0	0	0	0	7	0	0	0	0	0	1547	0	0	1585	0.2
NAGALAND	0	0	0	0	0	2	0	2	0	0	0	0	5	10	0	0	81	0	0	104	0	14	218	0.0
TRIPURA	1	4	1	0	0	0	0	4	0	0	0	0	66	0	0	80	11	0	0	926	0	3	1096	0.1
N.EASTERN	**18**	**6**	**192**	**0**	**204**	**25**	**0**	**28**	**0**	**22**	**0**	**0**	**83**	**107**	**2**	**314**	**575**	**0**	**0**	**9863**	**283**	**239**	**11961**	**1.6**
SIKKIM	0	0	0	0	4	1	0	1	0	0	0	0	0	1	0	14	1	0	0	352	0	0	375	0.1
BIHAR	2085	0	72	0	7	1	0	0	0	0	0	0	0	2	0	2095	3294	9	7	404	97	137	8210	1.1

JHARKHAND	5	0	0	0	0	0	0	0	0	47	0	0	0	0	0	661	559	0	0	2073	349	215	3908	0.5
ORISSA	612	136	1754	1	498	283	56	177	23	3	154	0	217	81	84	1487	1941	164	515	16467	277	2045	26975	3.6
W.BENGAL	558	197	2667	0	3266	786	0	614	2	436	0	0	949	104	310	341	2040	545	3511	22341	1609	1220	41495	5.6
A .N. ISLES	1	2	15	0	2	1	0	4	0	0	0	0	8	3	0	4	4	0	0	358	0	3	405	0.1
EASTERN	**3260**	**335**	**4507**	**1**	**3776**	**1072**	**56**	**796**	**25**	**485**	**154**	**0**	**1175**	**191**	**394**	**4603**	**7840**	**718**	**4033**	**41994**	**2332**	**3619**	**81368**	**11.0**
M.P.	6142	23	20317	0	113	2247	0	55	0	208	0	0	50	21	62	2708	1147	22	102	4223	2940	582	40965	5.5
HHATTISGARH	885	64	3487	0	5	48	0	43	0	52	0	0	23	5	61	479	514	0	0	593	109	82	6449	0.9
UTTAR PR.	18436	6103	18724	0	5916	27242	0	389	0	0	152	0	884	2366	4119	3126	1201	1092	757	21522	4243	1292	117564	15.8
TTARANCHAL	33	0	135	0	778	858	0	0	7	0	0	4	176	221	382	261	104	113	18	139	0	233	3461	0.5
CENTRAL	**25496**	**6190**	**42664**	**0**	**6812**	**30394**	**0**	**487**	**7**	**260**	**152**	**4**	**1133**	**2613**	**4624**	**6575**	**2966**	**1227**	**877**	**26478**	**7293**	**2189**	**168439**	**22.7**
N'HAVELI	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	9	0	9	0.0
GUJARAT	3052	515	7148	17	127	13761	0	1	0	1055	0	0	24	1	47	427	133	24	187	3281	6337	119	36256	4.9
GOA	6	30	7	0	50	51	4	0	8	1	0	0	6	0	0	11	7	0	0	1706	13	21	1920	0.3
IAHARASHTRA	25756	176	4997	62	7932	1925	61	2	0	733	71	16	160	431	730	1779	2577	377	861	6701	2757	855	58960	7.9
WESTERN	**28813**	**720**	**12152**	**79**	**8109**	**15736**	**65**	**3**	**8**	**1789**	**71**	**16**	**190**	**433**	**777**	**2217**	**2717**	**401**	**1048**	**11688**	**9116**	**994**	**97144**	**13.1**
ANDHRA PR.	5663	537	3760	0	677	3919	8	918	222	1364	374	0	189	2552	1676	1293	1157	161	389	19520	4662	27094	76134	10.3
KARNATAKA	4288	6160	4545	4	4793	821	5	0	41	255	0	0	103	212	339	795	560	118	140	12278	5755	4074	45285	6.1
AKSHADWEEP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
KERALA	1940	2957	122	9	3069	804	56	120	72	0	0	50	316	70	30	165	101	0	0	18775	987	1127	30770	4.1
PONDICHERRY	36	6	5	0	3	90	0	0	0	0	0	0	0	0	2	21	10	0	9	195	6	150	533	0.1
TAMILNADU	1467	342	4500	0	411	7111	18	62	7	5	31	23	390	3216	1911	556	403	302	111	23545	3460	20417	68286	9.2
SOUTHERN	**13395**	**10001**	**12932**	**13**	**8951**	**12745**	**87**	**1100**	**342**	**1624**	**405**	**72**	**998**	**6050**	**3957**	**2830**	**2231**	**581**	**649**	**74313**	**14871**	**52862**	**221009**	**29.8**
T O T A L	**85491**	**24958**	**99260**	**110**	**29203**	**90919**	**208**	**2884**	**381**	**4847**	**1240**	**101**	**7621**	**10964**	**17295**	**19181**	**20948**	**3608**	**7600**	**200740**	**51882**	**62426**	**741871**	**100**
% Share	11.5	3.4	13.4	0.0	3.9	12.3	0.0	0.4	0.1	0.7	0.2	0.0	1.0	1.5	2.3	2.6	2.8	0.5	1.0	27.1	7.0	8.4	100	

NOTE : (i) SGSY (ISB) includes PMRY disbursements (ii) PH includes Sericulture disbursements

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